

THE DEPARTMENT OF STATE



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The Mutual Security Program and the Realities of 1959

MESSAGE OF THE PRESIDENT TO THE CONGRESS¹

To the Congress of the United States:

A year ago, in concluding my message to the Congress on the mutual security program,² I described it as of transcendent importance to the security of the United States. I said that our expenditures for mutual security are fully as important to our national defense as expenditures for our own forces. I stated my conviction that for the safety of our families, the future of our children, and our continued existence as a Nation, we cannot afford to slacken our support of the mutual security program.

The events of the intervening year have vividly demonstrated the truth of these statements. In this 1 year there have been crises of serious proportions in the Middle East, in the Far East, and in Europe. In each of these the strength built by our mutual security program has been of immeasurable value.

At the time of the difficulty in Lebanon the uneasy balance of the Middle East would have been far more seriously endangered if it had not been for the stability of other Middle Eastern countries which our mutual security program had helped build. Without our mutual security aid, Jordan, under severe pressures, would have faced collapse, with the danger of flaring conflict over her territory.

In the Far East the firm stand of the Republic of China against the Communist attack on Quemoy would not have been possible without the arms and training furnished by our mutual security program and by the high morale promoted by the economic progress we have helped forward

on Taiwan. This successful local defense blunted an aggression which otherwise could have precipitated a major conflict.

In Europe today the Soviet Union has made demands regarding the future of Berlin which, if unmodified, could have perilous consequences.³ The resoluteness with which we and our allies will meet this issue has come about in large measure because our past programs of economic and military assistance to our NATO allies have aided them in strengthening the economies and the military power needed to stand firm in the face of threats.

While our mutual security program has demonstrated a high value in these tense moments, its military and economic assistance to other areas has undoubtedly had an equal value in maintaining order and progress so that crises have not arisen.

REALITIES OF 1959 AND AHEAD

I believe that these events of the past year and the stern, indeed harsh, realities of the world of today and the years ahead demonstrate the importance of the mutual security program to the security of the United States. I think four such realities stand out.

First, the United States and the entire free world are confronted by the military might of the Soviet Union, Communist China, and their satellites. These nations of the Communist bloc now maintain well-equipped standing armies totaling more than 6,500,000 men formed in some 400 divisions. They are deployed along the borders of our allies and friends from the northern

¹ H. Doc. 97, 86th Cong., 1st sess.; transmitted on Mar. 13.

² BULLETIN of Mar. 10, 1958, p. 367.

³ For background, see *ibid.*, Mar. 9, 1959, p. 333.

shores of Europe to the Mediterranean Sea, around through the Middle East and Far East to Korea. These forces are backed by an air fleet of 25,000 planes in operational units, and many more not in such units. They, in turn, are supported by nuclear weapons and missiles. On the seas around this land mass is a large navy with several hundred submarines.

Second, the world is in a great epoch of seething change. Within little more than a decade a worldwide political revolution has swept whole nations—21 of them—with three-quarters of a billion people, a fourth of the world's population, from colonial status to independence—and others are pressing just behind. The industrial revolution, with its sharp rise in living standards, was accompanied by much turmoil in the Western World. A similar movement is now beginning to sweep Africa, Asia, and South America. A newer and even more striking revolution in medicine, nutrition, and sanitation is increasing the energies and lengthening the lives of people in the most remote areas. As a result of lowered infant mortality, longer lives, and the accelerating conquest of famine, there is underway a population explosion so incredibly great that in little more than another generation the population of the world is expected to double. Asia alone is expected to have 1 billion more people than the entire world has today. Throughout vast areas there is a surging social upheaval in which, overnight, the responsibilities of self-government are being undertaken by hundreds of millions; women are assuming new places in public life; old family patterns are being destroyed and new ones uneasily established. In the early years of independence, the people of the new nations are fired with a zealous nationalism which, unless channeled toward productive purposes, could lead to harmful developments. Transcending all this there is the accompanying universal determination to achieve a better life.

Third, there is loose in the world a fanatic conspiracy, international communism, whose leaders have in two score years seized control of all or parts of 17 countries, with nearly 1 billion people, over a third of the total population of the earth. The center of this conspiracy, Soviet Russia, has by the grimmest determination and harshest of means raised itself to be the second military and economic power in the world today. Its leaders never lose the opportunity to declare

their determination to become the first with all possible speed.

The other great Communist power, Red China, is now in the early stages of its social and economic revolution. Its leaders are showing the same ruthless drive for power and to this end are striving for ever increasing economic output. They seem not to care that the results—which thus far have been considerable in materialistic terms—are built upon the crushed spirits and the broken bodies of their people.

The fact that the Soviet Union has just come through a great revolutionary process to a position of enormous power, and that the world's most populous nation, China, is in the course of tremendous change at the very time when so large a part of the free world is in the flux of revolutionary movements, provides communism with what it sees as its golden opportunity. By the same token, freedom is faced with difficulties of unprecedented scope and severity—and opportunity as well.

Communism exploits the opportunity to intensify world unrest by every possible means. At the same time communism masquerades as the pattern of progress, as the path to economic equality, as the way to freedom from what it calls "western imperialism," as the wave of the future.

For the free world there is the challenge to convince a billion people in the less developed areas that there is a way of life by which they can have bread *and* the ballot, a better livelihood *and* the right to choose the means of their livelihood, social change *and* social justice—in short, progress *and* liberty. The dignity of man is at stake.

Communism is determined to win this contest; freedom must be just as dedicated or the struggle could finally go against us. Though no shot would have been fired, freedom and democracy would have lost.

This battle is now joined. The next decade will forecast its outcome.

The fourth reality is that the military position and economic prosperity of the United States are interdependent with those of the rest of the free world.

As I shall outline more fully below, our military strategy is part of a common defense effort involving many nations. The defense of the free world is strengthened and progress toward a more stable peace are advanced by the fact that power-

ful free-world forces are established on territory adjoining the areas of Communist power. The deterrent power of our Air and Naval Forces and our intermediate range missiles is materially increased by the availability of bases in friendly countries abroad.

Moreover, the military strength of our country and the needs of our industry cannot be supplied from our own resources. Such basic necessities as iron ore, bauxite for aluminum, manganese, natural rubber, tin, and many other materials acutely important to our military and industrial strength are either not produced in our own country or are not produced in sufficient quantities to meet our needs. This is an additional reason why we must help to remain free the nations which supply these resources.

The challenge that confronts us is broad and deep, and will remain so for some time. Yet our gravest danger is not in these external facts but within ourselves—the possibility that in complacent satisfaction with our present wealth and preoccupation with increasing our own military power we may fail to recognize the realities around us and to deal with them with the vigor and tenacity their gravity requires.

We have the national capacity and the national program to surmount these dangers and many more. We have the strength of our free institutions, the productivity of our free economy, the power of our military forces, a foreign policy dedicated to freedom and respect for the rights of others, and the collective strength of our worldwide system of alliances.

The effectiveness of all these in meeting the challenge confronting us is multiplied by our mutual security program—a powerful and indispensable tool in dealing with the realities of the 2d half of the 20th century.

I should like to outline how the principal elements of this program will serve the vital interests of our country in fiscal year 1960.

THE MUTUAL SECURITY PROGRAM FOR FISCAL YEAR 1960

The mutual security program which I propose for fiscal year 1960 is in the same pattern and has the same component parts as the program which the Congress enacted at the last session. To carry forward this program I ask \$3,929,995,000.

I ask these funds to attain the two basic objectives of the mutual security program: military security and economic and political stability and progress.

The Military Shield

In view of the maintenance by the Communists of armed force far beyond necessary levels and the repeated evidences of willingness to use a portion of that force where the Communist leaders believe it would be a successful means to a Communist end, it is rudimentary good sense for the peoples of the free nations to create and maintain deterrent military strength. We do this not through choice but necessity. It is not in our nature to wish to spend our substance on weapons. We would like to see these outlays shifted to the economic benefit of our own Nation and our friends abroad striving for economic progress.

Because the need for military strength continues, we seek to build this strength where it can most effectively be developed, deploy it where it can most effectively be used and share the burden of its cost on as fair a basis as possible. To this end, we and over 40 other nations have joined together in a series of security pacts. Some of our allies and close friends have joined in other supporting agreements. We have also made certain individual undertakings such as the Middle East resolution.*

Each of the free nations joined in this worldwide system of collective security contributes to the common defense in two ways: through the creation and maintenance of its individual forces; through the support of the collective effort.

For our own military forces, which form a major element in the total security pattern, I have asked the Congress to make available \$40.85 billion, to which must be added approximately \$2.8 billion for atomic programs, largely for defense purposes. For our contribution of military materiel and training assistance to the collective security effort, I now ask the Congress to make available \$1.6 billion. This amount is far below that needed for our share of the cost of improving, or even providing essential maintenance for the forces of our allies. It is a minimum figure necessary to prevent serious deterioration of our collective defense system.

* For text, see *ibid.*, Mar. 25, 1957, p. 481.

These two requests, one for our own defense forces, the other for our share in supporting the collective system, are but two elements in a *single* defense effort. Each is essential in the plans of the Joint Chiefs of Staff for our national security. Each is recommended to you by the same Joint Chiefs, the same Secretary of Defense, and the same Commander in Chief.

Dollar for dollar, our expenditures for the mutual security program, after we have once achieved a reasonable military posture for ourselves, will buy more security than far greater additional expenditures for our own forces.

Two fundamental purposes of our collective defense effort are to prevent general war and to deter Communist local aggression.

We know the enormous and growing Communist potential to launch a war of nuclear destruction and their willingness to use this power as a threat to the free world. We know also that even local aggressions, unless checked, could absorb nation after nation into the Communist orbit—or could flame into world war.

The protection of the free world against the threat or the reality of Soviet nuclear aggression or local attack rests on the common defense effort established under our collective security agreements. The protective power of our Strategic Air Command and our naval air units is assured even greater strength not only by the availability of bases abroad but also by the early warning facilities, the defensive installations, and the logistic support installations maintained on the soil of these and other allies and friends for our common protection.

The strategy of general defense is made stronger and of local defense is made possible by the powerful defensive forces which our allies in Europe, in the Middle East, and the Far East have raised and maintain on the soil of their homelands, on the borders of the Communist world.

These military forces, these essential bases and facilities constitute invaluable contributions of our partners to our common defense. On our part we contribute through our military assistance program certain basic military equipment and advanced weapons they need to make their own military effort fully effective but which they cannot produce or afford to purchase.

As we move into the age of missile weapons, this plan of collective security will grow in im-

portance. Already intermediate range ballistic missiles are being deployed abroad. Our friends on whose territory these weapons are located must have the continued assurance of our help to their own forces and defense in order that they may continue to have the confidence and high morale essential to vigorous participation in the common defense effort.

The funds I now ask for military assistance are to supply to these partners in defense essential conventional weapons and ammunition for their forces and the highly complex electronic equipment, missiles, and other advanced weapons needed to make their role in the common defense effective.

As already pointed out, these funds are asked on a minimal basis. Continuation of a sufficient flow of materials and of sufficient training for the year can be attained only by some additional cannibalizing of the pipeline, already reduced to a point where flexibility is difficult.

To summarize, through the mutual security program our friends among the free-world nations make available to us for the use of our forces some 250 bases in the most strategic locations, many of them of vital importance. They support ground forces totaling more than 5 million men stationed at points where danger of local aggression is most acute, based on their own soil and prepared to defend their own homes. They man air forces of about 30,000 aircraft, of which nearly 14,000 are jets, 23 times the jet strength of 1950 when the program started. They also have naval forces totaling 2,500 combat vessels with some 1,700 in active fleets or their supporting activities.

Over the years of our combined effort, these allies and friends have spent on these forces some \$141 billion, more than six times the \$22 billion we have contributed in military assistance. During calendar year 1958 they contributed \$19 billion of their own funds to the support of these forces. On our part we have created and maintain powerful mobile forces which can be concentrated in support of allied forces in the most distant parts of the world. We know it would be impossible for us to raise and maintain forces of equal strength and with the immeasurable value of strategic location. Without the strength of our allies our Nation would be turned into an armed camp and our people subjected to a heavy draft and an annual cost of many billions of dollars above our present military budget.

Because the military assistance program is a vital part of our total defense, and to be certain that it serves its intended purpose fully and effectively, I have appointed a bipartisan committee of prominent Americans of the highest competence to examine this program and its operation thoroughly.⁵ I have asked them to make a report of their findings on the program, including its proper balance with economic assistance. Since its formation in late November of last year, the Committee has been vigorously pursuing its study, including personal visits to all major areas where military assistance is being rendered. The Committee has already indicated to me that it will recommend an increase in the level of commitments for vital elements of the military assistance program, primarily for the provision of weapons to the NATO area. I expect to receive its written interim report shortly. I will, of course, give this report my most careful attention and will then make such further recommendations as are appropriate.

Maintaining Economic Stability

While our own and our allies' military efforts provide a shield for freedom, the economic phases of our mutual security program provide the means for strengthening the stability and cohesion of free nations, limiting opportunities for Communist subversion and penetration, supporting economic growth and free political institutions in the newly independent countries, stimulating trade, and assuring our own Nation and our allies of continuing access to essential resources.

Two of these programs, defense support and special assistance, are specifically directed toward helping maintain order, stability, and, in certain countries, economic progress, where these are of material importance to the welfare of the United States itself.

Defense Support.—For most of our allies and friends the cost of the share which they bear of the common defense effort constitutes a heavy burden on their economies. Our NATO allies in Western Europe bear this entire economic burden themselves, receiving from us only advanced weapons and other essential items of military equipment and certain training. But for others, the burden of defense vastly exceeds their limited

⁵ For background, see *ibid.*, Dec. 15, 1958, p. 954, and Feb. 9, 1959, p. 197.

resources. They therefore are forced to turn to us for economic help in maintaining political and economic stability.

We supply this assistance through our defense support program to 12 nations in which we are helping to arm large military forces. Eleven of these nations—Greece, Turkey, Iran, Pakistan, Thailand, Laos, Cambodia, Viet-Nam, the Philippines, the Republics of China and Korea—lie along or are narrowly separated from the very boundaries of the Sino-Soviet bloc, subjected daily to the pressures of its enormous power. Several of them are also the sites of major U.S. military installations. The 12th, Spain, is the strategically located site of other bases used by the United States. Together these 12 nations are supporting 3 million armed forces—nearly one-half of the total forces of the free world.

Despite their proximity to Communist forces, most of these nations have pledged themselves to the worldwide collective defense plan. Greece and Turkey are among our NATO allies. Pakistan, Thailand, and the Philippines are among our SEATO allies and Cambodia, Laos, and Viet-Nam are protected through SEATO. Turkey, Iran, and Pakistan are active members of the Baghdad Pact which forms a connecting link of free-world defenses between NATO and SEATO. Korea, the Republic of China, and the Philippines are joined with us in special mutual defense agreements.

For defense support, to make possible the needed contributions of these 12 nations to the common defense, I ask \$835 million. I ask the Congress to recognize these economic needs of our partners and to provide the full amount I request.

Over two-thirds of this sum will be used for Turkey, Viet-Nam, Taiwan, and Korea. These courageous and strategically located nations—three of them the free areas of divided nations—are directly faced by heavy concentrations of Communist military power. Together they contribute nearly 2 million armed forces in the very front lines of the free world's defenses. These nations depend for survival on our defense support program. The remaining third of the funds will be for the eight other nations which rely on this help to enable them to make their valuable contributions to the common defense without serious harm to their economies.

These nations are contributing heavily to the defense effort in keeping with their abilities. Reducing the defense support we provide them will compel a reduction in the forces we wish them to maintain in our common defense or place a heavy additional burden on the already low standards of living of their people.

Special Assistance.—There are a number of other nations and areas of the world whose need is so great and whose freedom and stability are so important to us that special assistance to them is essential. In North Africa, for example, the newly independent Arab nation, Tunisia, is struggling to improve the economic and social conditions of its people while under strong external pressures. Its neighbors, Morocco and Libya, are also striving to build economic progress upon their newly acquired political independence. Another new nation, the Sudan, is an important link between the Arab world and rapidly growing Central Africa, and is intently working to maintain its independent course of progress in the face of strong Communist and other outside pressures. These nations are all new outposts of freedom in whose success we are deeply interested.

During the last year, as I have mentioned, Jordan has been subjected to severe pressures. Should Jordan be overwhelmed, the peace and stability of the Middle East would be endangered. But with its very limited internal resources, Jordan desperately needs continued substantial outside help.

West Berlin is a solitary outpost of freedom back of the Iron Curtain. In addition to the firm support which we and our NATO allies have assured West Berlin in the face of current Soviet threats, it is important that we show our support of its people by continuing our economic assistance to the beleaguered city.

Programs for Health.—I have on several occasions during the recent past sought to focus public attention on the great opportunity open to the United States in the field of health. The United States will continue to support and promote the accelerating international fight against disease in the coming fiscal year. The great campaign to eradicate the world's foremost scourge—malaria—is moving into its peak period of activity and need for special assistance funds. Of more than a billion people formerly exposed to the disease, half have now been protected and the movement

is gaining strength and momentum as a true international effort. The substantial progress of this campaign as well as modern medical potential generally have opened new vistas of the conquest of mass disease through pooling of efforts.

I ask the Congress to make available funds to continue the program for development of medical-research programs begun last year by the World Health Organization with the help of a grant from the United States. I also propose that the United States explore whether practical and feasible means can be found whereby progress can be made toward equipping those nations whose needs are greatest to provide, in a reasonable time, pure drinking water for their people as a method of attack on widespread waterborne diseases.

Added to the health programs now being carried on by our bilateral programs and through our voluntary contributions to the United Nations, these new programs will raise the health activities proposed for fiscal year 1960 under the mutual security program to a total value of some \$84 million, exclusive of loans by the Development Loan Fund in this field. The total effort of the United States in the field of international health, including among other activities those conducted by the Department of Health, Education, and Welfare, will approximate \$100 million.

For the nations I have mentioned and several others, for West Berlin, for such programs as those for health, for support to certain of our American-sponsored schools abroad and for our contribution to the United Nations Emergency Force I ask \$272 million in special assistance funds. I believe that the close examination which I expect the Congress to give each of these special needs will show that this request is conservative.

Aiding Economic Progress

The requests for funds for defense support and special assistance which I have outlined thus far are directed primarily at maintaining political and economic stability. But in our dynamic world of multiple revolutions this is far from enough.

In many nations of Asia and Africa per capita incomes average less than \$100 a year. Life expectancies are half those of the more advanced nations. Literacy averages 25 percent. Affected

by the revolutionary drives which are sweeping their regions, the peoples of the areas will tolerate these conditions no longer, and they should not. They are intently determined to progress, and they deserve to do so. If they cannot move forward, there will be retrogression and chaos, the injurious effects of which will reach our own shores. These newly independent peoples look to their present generally moderate governments for leadership to progress. If they do not find it, they will seek other leadership, possibly extremists, whose advent to power would not only endanger the liberties of their own people but could adversely affect others, including ourselves.

Above all, these people must have hope that they can achieve their economic goals in freedom, with free institutions and through a working partnership with other citizens of the free world.

The leaders of the Soviet Union and Communist China are intently aware of the great revolutionary surges in these less developed areas, many of which are on the borders of the Communist bloc. Seeing in these new trends a historic opportunity, they have reversed their attitude of hostility to all nations not under their direct control. Five years ago they entered on a great diplomatic and economic campaign of wooing the new nations of Asia and Africa, even attempting to push their drive into Latin America. I reported on this campaign of trade and aid in my message to the Congress last year. It has increased in intensity in the intervening time. Communist bloc military and economic credits to 17 selected nations exceeded a billion dollars in 1958 alone, bringing the present total to \$2.4 billion. The number of technicians supplied to 17 countries of Asia and Africa rose from 1,600 in 1957 to 2,800 in 1958.

Our own programs of technical cooperation and capital assistance are not mere responses to Communist initiatives. The reverse is true. This year will mark the 10th anniversary of our point 4 program. Capital assistance for development has been flowing to nations needing our help for many years. Even if the Communist bloc should revert tomorrow to its previous icy treatment of all free peoples, we would continue the warmth of our interest in and help to their determined efforts to progress.

Nevertheless, it is imperative that we understand the real menace of the Communist economic

offensive. The great contest in half the globe, the struggle of a third of the world's people, is to prove that man can raise his standard of living and still remain free—master of his individual destiny and free to choose those who lead his government. The Communist economic offensive presents the grave danger that a free nation might develop a dependence on the Communist bloc from which it could not extricate itself. This must not happen. We and other nations of the free world must provide assurance that no nation will be compelled to choose between bread and freedom.

The United States is determined to do its part in providing this assurance. For this purpose, in addition to channels of private investment and existing financing institutions, we have created two carefully designed instruments of national policy: the technical cooperation program and the Development Loan Fund.

Technical Cooperation.—To carry on our technical cooperation program some 6,000 skilled American men and women are now working in 49 countries and 9 dependent territories which have asked our help. They are advising high officials on problems of administering new governments. They are helping farmers raise their incomes by teaching them better methods of cultivation, irrigation, and fertilization and by introducing more productive seeds, poultry, and livestock. They are planning with local scientists for uses of atomic power and isotopes. They are attacking disfiguring and debilitating diseases and helping to increase the health and vigor of untold millions. They are helping to organize the educational systems which will bring literacy and the knowledge which is the power for progress.

In order to transfer our modern technical knowledge even more effectively, we will bring next year over 10,000 of the rising leaders of the less developed areas to study in the United States or in specially developed training programs in other countries.

To provide for the work of our technicians abroad and for these training programs I ask \$179.5 million for fiscal year 1960. The increase in this sum over the current year is to expand programs recently begun in the newly independent and emerging countries of Africa, to intensify activity in Asian nations, and to augment substantially cooperative programs with countries of Latin America.

I also ask \$30 million to be available for our contribution to the companion technical cooperation and special projects programs of the United Nations, initiated by our own Government. I anticipate that increasing contributions by other members in the year 1960 will call for this increased contribution on our part.

As in recent years, I believe we should continue our annual contribution of \$1.5 million to the technical cooperation program of the Organization of American States.

The Development Loan Fund.—Administrative and technical skills, though essential to economic growth, cannot of themselves make possible the rate of progress demanded of their governments by the peoples of the newly independent nations. For this progress they must have capital—capital for the roads, telecommunications, harbors, irrigation, and electric power which are the substructure of economic progress and for the steel mills, fertilizer plants, and other industries which are fundamental to general economic growth.

Just as in the early decades of our own national development we depended upon the more highly developed nations of that period—England, France, and others—for capital essential to our growth, so do the new nations of this era depend on us and others whose economies are well established.

Two years ago the Congress, the executive branch, and several distinguished private organizations reexamined the needs of the newly independent nations for outside development capital and of the then existing sources. The independent but unanimous conclusion of these studies was that existing sources were and for the foreseeable future would be inadequate to meet even the most pressing needs. They recommended that there be established a new institution to provide long-term credits on flexible terms.

In the light of these findings, I recommended to the Congress and it established the Development Loan Fund, an agency of the United States Government especially designed to advance loans on a businesslike basis for sound projects which cannot find financing from private or established governmental sources.

The Development Loan Fund in its little more than a year of active operation has established the sound and useful position that was foreseen for it. In this short time it has taken under consid-

eration \$2.8 billion in screened requests for loans. It has later determined that some \$600 million were unacceptable or more appropriate for private or other public financing. Of its total capital of \$700 million thus far made available by the Congress, it had by mid-February 1959 committed \$684 million for loans to projects in 35 countries. For all practical purposes it is now out of funds for further loan commitments and has before it applications totaling over \$1.5 billion with more being received almost daily.

In order that the Fund may continue to meet the most urgent needs of the nations depending on us, I have asked the Congress for a supplemental appropriation of \$225 million to be available in the fiscal year 1959. This appropriation is under authorizations previously made but not used.

When I made my original recommendation to the Congress in 1957 for the establishment of the Development Loan Fund,⁶ I urged that it be provided with capital for 3 years of operation and stated that based on observation of its progress within that period I would ask for longer term capitalization commencing in fiscal year 1961. The Congress chose to authorize capital initially for 2 years of operation. I now ask that the Congress authorize and appropriate \$700 million to become available in fiscal year 1960, the third year of the Fund. This sum will allow the Fund a level of activity no higher than it established in its first year of operation.

Consideration should continue to be given to capitalization procedures that will allow better long-range planning.

Private Investment.—These governmental programs of technical cooperation and capital financing of course only augment the investment in progress which comes from private sources. But they are indispensable and probably will be for a number of years because private investment, though very significant in the Western Hemisphere, does not and cannot in the near future be expected to supply more than a fraction of the capital needed by the new nations of Asia and Africa.

In order to encourage increased private investment in these areas, our Government has already undertaken a system of guarantees against loss from nonconvertibility of foreign currency receipts and from expropriation, confiscation, and

⁶ For text, see *ibid.*, June 10, 1957, p. 920.

war. To further stimulate such investment, I now request that legislation be enacted to allow similar guarantees against risks of revolution, insurrection, and related civil strife. I propose also that the Congress double the availability of such guarantees.

Contingency Fund and Other Programs

The experience of this year has shown, as in the past, that there will arise each year contingencies for which funds will be urgently needed, but which cannot be foreseen at all or with sufficient clarity to program in advance. For the current year I asked \$200 million for such eventualities. Heavy demands, arising from the crises in the Middle East and from needs elsewhere, have already been made on the \$155 million appropriated—with several months of the fiscal year remaining. I still believe that \$200 million is the smallest sum which safety and prudence recommend, and I ask that this sum be provided for fiscal year 1960.

I recommend that we continue our support of the United Nations Children's Fund, our help in the resettlement of refugees from communism, our programs of atoms for peace, and certain other small programs we are now engaged in. The International Cooperation Administration will need an increase in its administrative funds, particularly to help obtain more persons of high qualifications for service abroad and to strengthen our representation at key posts in Africa and Latin America. For all these purposes I ask \$112 million.

Some Fiscal Considerations

The total sum I request for the mutual security program for fiscal year 1960, \$3,929,995,000 is slightly less than I asked last year. Each category and item in it has been weighed in terms of the contribution it will make to the achievement of the important objectives the program is designed to serve. The total amount is well under 1 percent of the gross national product our country will enjoy in the coming year. It is approximately 5 percent of our national budget. The greater part will go for military equipment to our allies and for economic support directly related to defense. The remainder, for aid to the economic growth we are most anxious to promote, amounts to less than 2 percent of our national

budget, under one-third of 1 percent of our national production. At the end of the present fiscal year the military assistance pipeline will be at the lowest level in its history and will be further reduced by next year's expenditure which will substantially exceed the new appropriation I am now asking. The economic assistance pipeline will, as in recent years, be barely enough to keep the program flowing without serious interruption.

The true measure of this national security program is what we have gotten and will get for our expenditures and what the cost would be without it. Over the years we have received returns many times the value of our investment.

Our first great work, the Marshall plan, cost less than projected, ended on time, and revived Western Europe from the destruction of the war to a group of thriving nations, now among our best customers and strongest allies, many of whom are now joining with us in assistance to the newly independent nations.

Our military and economic aid has been indispensable to the survival and gradual progress of nation after nation around the perimeter of Asia from Greece to Korea and others in Africa and our own hemisphere. When I hear this program described as a "giveaway" or "aid to foreigners at the expense of domestic programs," I wonder what sort of America we would have today—whether any funds would be available for any domestic programs—whether all of our substance would not today be devoted to building a fortress America—if we had not had such a program: if the key nations of Europe had been allowed to succumb to communism after the war, if the insurrectionists had been allowed to take over Greece, if Turkey had been left to stand alone before Soviet threats, if Iran had been allowed to collapse, if Viet-Nam, Laos, and Cambodia were now in Communist hands, if the Huks had taken control in the Philippines, if the Republic of Korea were now occupied by Communist China.

That none of these tragedies occurred, that all of these nations are still among the free, that we are not a beleaguered people is due in substantial measure to the mutual security program.

CONCLUSION

The realities of this era indicate all too clearly that the course of our country will be deeply

affected by forces at work outside our borders. These forces, if left to exploitation by extremists, will inevitably lead to changes destructive to us. Yet with wisdom and tenacity it lies within our power to frustrate or to shape these forces so that the peoples directly concerned and our own Nation may be benefited.

We cannot safely confine Government programs to our own domestic progress and our own military power. We could be the wealthiest and the most mighty Nation and still lose the battle of the world if we do not help our world neighbors protect their freedom and advance their social and economic progress. It is not the goal of the American people that the United States should be the richest Nation in the graveyard of history.

In the world as it is today—and as it will be for the foreseeable future—our mutual security program is and will be both essential to our survival and important to our prosperity. It not only rests upon our deepest self-interest but springs from the idealism of the American people which is the true foundation of their greatness. If we are wise we will consider it not as a cost but as an investment—an investment in our present safety, in our future strength and growth, and in the growth of freedom throughout the world.

DWIGHT D. EISENHOWER

THE WHITE HOUSE,
March 13, 1959.

Bolivia Expresses Regret Over Anti-U.S. Demonstrations

Department Statement

Press release 180 dated March 18

The Foreign Minister of Bolivia [Victor Andrade], taking note of the Department's concern over reactions in Bolivia to the article which appeared in the March 2d issue of *Time* magazine,¹ has expressed to the United States Chargé d'Affaires at La Paz, Mr. Wymberley DeR. Coerr, his

Government's regret over the anti-United States incidents which occurred there.

He has assured our Chargé that while the article in question produced national indignation and public protest, the acts of violence which went beyond this rightful indignation were the result of agitation by a small minority of extremists influenced by international communism carried out with the intent of damaging the traditional friendship between the peoples and Governments of Bolivia and the United States. They did not, he said, represent the feelings or the attitudes of the people and Government of Bolivia.

The Foreign Minister indicated to our Chargé that the Bolivian Government has instituted legal action to determine the extent of damages to the premises and property of the United States Government and its citizens and to establish the identity of those who were responsible. The Foreign Minister indicated that the Bolivian Government intends to make appropriate amends.

The Department deeply appreciates the sincere and friendly expression which the Foreign Minister made to our Chargé d'Affaires. The Department has recognized from the beginning that the unfortunate acts of violence did not represent the true feelings of the Bolivian Government and people, just as the regrettable magazine article in question in no way reflected the attitudes and policies of the people and Government of the United States toward Bolivia. Acting Secretary Herter made this United States attitude clear to the Bolivian Ambassador here [Manuel Barrau] and in a press statement on March 2d.²

The Department takes this opportunity to express its sincere condolences over the death of the two Bolivian citizens killed during the disturbances and its regrets over the injuries sustained by Bolivian policemen while protecting United States property in La Paz.

¹ The article attributed to an American Embassy spokesman at La Paz remarks which were considered offensive to Bolivia.

² Not printed here.

The Individual and United States Foreign Policy

by John W. Hanes, Jr.

Administrator, Bureau of Security and Consular Affairs¹

The concept of individual dignity—and a moral obligation to extend it throughout the world—is inherent in every basic American political document. Our constitutional responsibility to "secure the blessings of liberty to ourselves and our posterity" rests equally upon citizens and the Government. Lincoln, speaking of the Declaration of Independence, said it meant "liberty not alone to the people of this country, but hope to all the world, for all future time." It is, therefore, not surprising that both the American people and their Government have devoted vast efforts and resources in seeking the attainment of individual dignity in many lands. Nor is it accidental that these public and private efforts have often been pursued in close partnership of purpose and method.

The same language from the preamble to the Constitution remains the fountainhead of United States foreign policy. On January 14th of this year, Secretary Dulles outlined to the Senate Foreign Relations Committee the three main purposes of our foreign policy.² He said:

(1) At a time when war involves unacceptable risks for all humanity, we work to build a stable world order.

(2) We seek for general acceptance of the concept of individual dignity which will lead to the spread of responsible freedom and personal liberty.

(3) We seek that the free nations shall attain a more rapid rate of economic growth, so that their independence will be more secure and vigorous and so that there will be greater opportunities for cultural and spiritual development.

These purposes, of course, are deeply meaningful to individuals everywhere.

¹ Address made before the National Council on Naturalization and Citizenship at New York, N.Y., on Mar. 12 (press release 177).

² BULLETIN of Feb. 2, 1959, p. 151.

Even as our foreign policy inevitably stems from our preoccupation with freedom and personal dignity, it can have no meaning or value except in its capacity to promote these concepts for the individual. Our concern for the freedom of any country will be hollow indeed if not accompanied by genuine and concrete effort to advance the self-fulfillment of the individual citizens of that country. This applies not only to countries already free but equally to those fallen under Communist tyranny. We must never ratify the slavery of the 700 million captive peoples behind the Iron Curtain. Their basic right to freedom and dignity is not ours to barter away.

The concern of our Government for individuals everywhere would be rightly suspect if it were not accompanied by a similar concern on the part of our individual citizens. I cannot overstate the importance of this point. We are all aware of the innumerable practical problems concerning such things as immigration quotas, visa requirements, and the scope of refugee aid programs. Often—and healthily—we disagree about how to meet these problems. But we do not disagree on the basic issues. It is very clear that there is no fundamental divergence between American foreign policy and the practical humanitarianism which characterizes the work of organizations such as yours. The Government and the people are equally concerned with works which reflect the true image of America abroad.

In the brief 2 months that I have held my present position, I have been deeply impressed by the fact that almost all the varied activities under my supervision have one unifying thing in common: They all focus directly upon the individual. The great issues of foreign policy—war and peace, the Berlin crisis, the situation in the Middle East,

the problem of emerging Africa—all these things have significance for each of us; but that significance is impersonal and general. We recognize and participate in the importance of these events because of our national and international interests rather than as individuals.

The activities of the Bureau of Security and Consular Affairs represent that part of our foreign policy that touches the individual very directly. Indeed, our bureau undoubtedly translates foreign policy into meaningful individual terms for more persons than any other section of the Department of State. Our Passport and Visa Offices deal only with individual cases; and even the Office of Refugee and Migration Affairs, while necessarily concerned with the solution of social and political problems through the mass movements of people, has always recognized that such solutions are illusory unless they are based upon concern for the needs of the human individuals who make up every such "problem."

We do not deal with statistics but with human beings. Statistics are at times a convenient measure of the dimensions of our problems and sometimes of our progress in attacking them. But any attempt to solve the problems of people by the impersonal application of mechanical mathematics can only be stillborn.

Simplifying Movement of People

It is important that many of our activities involve the movement of people between countries. Peace, in a world in which either a tourist or a hydrogen bomb can span half a world at speeds we still hardly believe, must rest on knowledge of one another. We can no longer ignore other peoples whom we do not want to bother to understand. A billion and a half of the world's people—the "have nots" who throughout history have been apathetic because of ignorance and isolation—are apathetic no longer. What we do affects them, and they are reacting vigorously and in ways that affect us. This is and will be so whether or not we like it—whether or not we even know of it. We *must* know of it. They must know us. International understanding today can only come through the travel and movement of people.

We in the Bureau of Security and Consular Affairs are constantly striving to make this travel simpler. We have taken extensive steps over the

past 2 years to simplify procedures in the processing and issuance of visitors' visa applications. Our consuls abroad have been urged to suggest even further improvements. As a result, an applicant is now able to obtain his visa in only a fraction of the time that used to be necessary, often in only a few minutes.

We are now introducing a new procedure for handling immigrant visas in our consular offices around the world. This simpler, quicker, and easier method has been tested for nearly a year now in our posts in Canada and more recently in Mexico. We will be putting it into effect in the coming year throughout Europe, and we hope to have it installed worldwide within 2 years. These first trials have been very successful, and this new procedure has been acclaimed both by our consuls and by the visa applicants as greatly cutting down red tape. Under this system the intending immigrant is first mailed a list of the documents he must submit or fill in, and then he himself keeps his own case file until he has all the necessary material. In that way, he always knows the exact status of his application. When it is all complete, he brings it in to the consul and usually receives his visa the same day.

I am happy also to report that the quota numbers available under basic U.S. immigration legislation are used more fully each year. The total of 109,134 used during fiscal year 1958 is a new high. In addition the supply of refugee visas available under section 15 of Public Law 85-316 has been all but used up after 18 months. Under the act as a whole, a total of 49,120 visas have been issued as of January 31, 1959.

We have carried out similar dramatic improvement measures in the Passport Office. We expect to issue over 750,000 passports during fiscal year 1959—three-fourths of a million—an increase of 15 percent a year for the past 3 years. Despite this, almost every passport application is now fully processed within 4 days after its receipt, in contrast to the 6 or 8 weeks formerly required. Also, more and more applications are being handled entirely in the passport field offices in our major cities instead of having to come to Washington for decision.

Refugee and Migration Programs

I need not comment in detail on our refugee and migration programs, which most of you know

thoroughly. You know that they stand as very tangible expressions of the U.S. effort to replace squalor with a home, hunger with food, and hopelessness with a job. These material ingredients of personal dignity may not sound so noble as liberty and freedom; but, to humans who get hungry and sick and worry about their children, they very often are necessary to make the noble concepts seem worth while.

The very creation of the Office of Refugee and Migration Affairs as part of our bureau of the Department of State attests to the importance we attach to these subjects. Now, through centralized action and attention, a more efficient and meaningful approach is possible than before. The creation by the United Nations of the World Refugee Year starting in June is a further measure of the great significance of refugee problems in the world today.

The U.S. escapee program is our own effort in this field, dedicated to helping those who have made the perilous escape from Communist oppression. We are reviewing this program once again to make certain that nothing is being left undone which could promote this objective. We shall continue also to participate in the international refugee programs, including the work of the U.N. High Commissioner for Refugees and the Inter-governmental Committee for European Migration.

I have gained much personal satisfaction from my own close association with the High Commissioner's office, and especially from having helped renew and change his charter, during the U.N. General Assembly in 1957, to give him a new flexibility in meeting urgent refugee problems arising throughout the world.³

Our bureau also backstops and deals directly and continuously with our 283 consular posts around the world, almost entirely about the problems of individuals. The American consul is, in many ways, the principal representative of America to the people of foreign lands. Our ambassadors, of necessity, are our principal representatives to foreign governments and must deal mostly with foreign ministers and presidents. Our consuls deal with mayors and aldermen and tradesmen and businessmen and just plain people—and do so day in and day out. They are residents of the local community, and they are usually active and

welcome participants in community life. When anyone there has a problem involving the United States—or wants to visit or live here, or has business dealings with us—naturally he goes to the American consul. It is one of our primary functions to help the consul help those who come to him for assistance.

These jobs of ours are service functions. Too frequently the image of the Department of State is only that of international conferences and discussions between diplomats. We must never forget that the Department is a service organization charged with representing the American citizen and American interests in countless ways, at home and abroad.

However, our work is also an intimately important part of our foreign policy. What we do to help solve the great problems of the resettlement of surplus populations or the hundreds of thousands of refugees living in conditions that breed hatred and unrest; whether our immigration policy, as exemplified by the local consul issuing or not issuing a visa, accords with the image we believe America should have abroad—such things demonstrate the direct link that exists between national foreign policy and the individual. We are proud that this link so often runs through our bureau. Secretary Dulles has told me very often how strongly he feels about the importance of our always remembering the needs of the individuals throughout the world who frequently see and judge our Government and our country through their experience with the consular and passport officers of the Department of State. I am sure the Secretary was thinking of our impact on individuals as well as on nations when he recently said:⁴

"We are but one nation among nearly a hundred sovereignties and but a scant 6 percent of the world's land surface and population. Our foreign policy is not something we can enact into world law or dictate to other peoples. It means rather constant adjustment to forces which, though beyond our control to direct, we can influence through wise statesmanship and adherence to sound principles. With our immense wealth and power, and even more because of our spiritual heritage of faith and freedom, we can exert a shaping influence on the world of the future."

³ *Ibid.*, Dec. 9, 1957, p. 937.

⁴ *Ibid.*, Feb. 2, 1959, p. 151.

Letters of Credence

Canada

The newly appointed Ambassador of Canada, Arnold D. P. Heeney, presented his credentials to President Eisenhower on March 2. For texts of the Ambassador's remarks and the President's reply, see Department of State press release 146.

Malaya

The newly appointed Ambassador of the Federation of Malaya, Nik Ahmad Kamil, presented his credentials to President Eisenhower on March 11. For texts of the Ambassador's remarks and the President's reply, see Department of State press release 172.

U.S. and Canada Conclude Air Transport Talks

Press release 185 dated March 13

The Department of State announced on March 13 that successful talks had been held between the United States and Canadian officials who met at Ottawa on March 12 and 13 to discuss modifications of the bilateral air agreement of June 4, 1949, as amended.¹

The discussions concentrated for the most part in improving present transborder routes so as to provide a better service to the traveling public of both countries. The delegations expressed the hope that the discussions would be resumed at an early date to review the air transport agreement of the two countries on a broader basis.

The two delegations agreed to recommend to their respective Governments the following improved service:

Canadian carriers may operate between Prince Rupert and Ketchikan; Calgary and Spokane; Winnipeg and/or Kenora, International Falls and Fort William/Port Arthur; Toronto and Buffalo; and an extension of the Halifax-Boston route to New York.

United States carriers may operate between Ketchikan and Prince Rupert; Spokane and Calgary; Great Falls and Calgary in replacement for Lethbridge on the existing Great Falls-Edmonton route; Minot and Regina; Duluth/

¹ Treaties and Other International Acts Series 1934 and 3456.

Superior and Fort William/Port Arthur and Hancock/Houghton; and Buffalo and Toronto. It was agreed that a U.S. carrier might serve Portland, Maine as an intermediate stop on the existing route between Boston and Montreal; and that Winnipeg might be served on present turn-around flights between Minneapolis/St. Paul and Edmonton.

This agreement will be put into effect when approved by each Government by an exchange of diplomatic notes.

U.S. and Canada Exchange Notes on St. Lawrence Seaway Tolls

Following is an exchange of notes between the United States and Canada regarding tolls on the St. Lawrence Seaway, together with texts of the Memorandum of Agreement and Tariff of Tolls (press release 179 dated March 12).

TEXT OF U.S. NOTE

No. 205

The Ambassador of the United States of America presents his compliments to the Secretary of State for External Affairs and has the honor to refer to his Note No. 57 of March 9, 1959, proposing certain arrangements to govern tolls on the St. Lawrence Seaway.

The terms and conditions set forth in this Note, the attached Memorandum of Agreement and the tariff of tolls set forth therein are acceptable to the Government of the United States which concurs in the proposal contained in the Note of the Secretary of State for External Affairs to the effect that the Note and this answer thereto shall constitute an agreement between the Canadian and the United States Governments and shall be effective from April 1, 1959.

EMBASSY OF THE UNITED STATES OF AMERICA
Ottawa, March 9, 1959.

TEXT OF CANADIAN NOTE

No. 57

The Secretary of State for External Affairs presents his compliments to the Ambassador of the United States of America and has the honour to propose that the undernoted arrangements

shall govern the tolls that are to be levied on ships, passengers and cargoes using the navigational facilities operated under the authority of the St. Lawrence Seaway Authority in accordance with the St. Lawrence Seaway Authority Act (1952 R.S.C., c. 242) as well as those operated by the St. Lawrence Seaway Development Corporation in accordance with United States Public Law 83-358.

On January 29, 1959, the Administrator of the St. Lawrence Seaway Development Corporation and the President of the St. Lawrence Seaway Authority signed in Massena, New York, a Memorandum of Agreement on the tariff of tolls to be levied on ships, passengers and cargoes using the aforementioned facilities. A copy of this Memorandum of Agreement is attached and is hereby incorporated in this Note.

The Secretary of State for External Affairs, on behalf of the Government of Canada, proposes that the provisions in the attached Memorandum of Agreement and the tariff of tolls set out therein shall be made binding by the two governments, with effect from April 1, 1959.

If the foregoing meets with the approval of the United States Government, it is proposed that this Note and the Ambassador's reply shall constitute an agreement between the two Governments.

OTTAWA, March 9, 1959.

Memorandum of Agreement

MEMORANDUM OF AGREEMENT BETWEEN THE ST. LAWRENCE SEAWAY AUTHORITY AND THE SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION RESPECTING THE ST. LAWRENCE SEAWAY TARIFF OF TOLLS

The St. Lawrence Seaway Authority is hereinafter referred to as the "Authority" and the Saint Lawrence Seaway Development Corporation as the "Corporation".

The St. Lawrence Seaway Authority Act, enacted by the Parliament of Canada, having provided, in part, as follows—

Sec. 17. Where the works have been constructed and are maintained and operated by the Authority to provide in conjunction with works undertaken by an appropriate authority in the United States, the deep waterway mentioned in section 10, tolls may be established pursuant to sections 15 and 16, or by agreement between Canada and the United States and, in the event of such an agreement, shall be charged by the Authority in accordance with directions given by the Governor in Council.

and Public Law 358, 83rd Congress, enacted by the Congress of the United States having provided, in part, as follows—

Sec. 12. (a) The Corporation is further authorized and

directed to negotiate with The Saint Lawrence Seaway Authority of Canada, or such other agency as may be designated by the Government of Canada, an agreement as to the rules for the measurement of vessels and cargoes and the rates of charges or tolls to be levied for the use of the Saint Lawrence Seaway, and for an equitable division of the revenues of the seaway between the Corporation and the Saint Lawrence Seaway Authority of Canada.

the Authority and the Corporation have agreed to recommend to their respective Governments as follows:

1. THAT the tariff of tolls for the St. Lawrence Seaway, annexed hereto, be established pursuant to the provisions of the appurtenant laws; this tariff is referred to hereunder as "the Tariff";

2. THAT the division of the tolls derived from the operation of that portion of the St. Lawrence Seaway situated between Montreal and Lake Ontario shall be initially seventy-one per cent (71%) in Canadian dollars to the Authority and twenty-nine per cent (29%) in United States dollars to the Corporation, such division being based upon preliminary estimates of their respective annual charges: provided, however, that these percentages shall be adjusted from time to time so that the Authority and the Corporation shall receive, during the term of the Tariff, a proportion of the tolls in the ratio of their respective annual charges (for operation, maintenance, interest and retirement of debt), to their combined annual charges in respect of the said portion of the St. Lawrence Seaway, such charges to be taken at par of exchange, and the respective proportions to be received by the Authority in Canadian dollars and by the Corporation in United States dollars;

3. THAT the whole of the tolls derived from transit of the Welland Canal shall accrue to the Authority;

4. THAT the Authority and the Corporation may, subject to confirmation in accordance with applicable law, amend the Tariff to give effect to the division of tolls herein and without affecting the substance or tenor of the Tariff, to add to or delete from the list of goods defined as "bulk cargo" in paragraph 2 (b) of the Tariff, and to make such other changes to the Tariff as will be compatible with the general terms of the Tariff;

5. THAT the establishment and maintenance of a method of billing and the collection of tolls shall be the responsibility of the Authority, which shall account to the Corporation for its share of the total revenue, subject to such collaboration and co-operation on the part of the Corporation as may jointly be determined; and that the Corporation shall pay to the Authority a rateable share of the cost of billing and collecting tolls;

6. THAT there shall be constituted a Joint Tolls Advisory Board (hereinafter referred to as the "Board") comprised of four persons, two of whom shall be appointed by the Authority and two by the Corporation. The Authority and the Corporation shall alternately appoint a member of the Board to be Chairman, and he shall act in that capacity for a period of six months, or until replaced. Three members of the Board, one of whom shall be the chairman, shall form a quorum. The chairman shall have the right to vote at meetings of the Board and, in case of equal division, shall also have a

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casting vote. The Board shall sit at the direction of the chairman, who shall cause a record of the proceedings thereof to be kept. The Board may make rules and regulations for its own conduct. It shall be the duty of the Board to hear complaints relating to the interpretation of the Tariff by the Authority or the Corporation, or with respect to alleged unjust discrimination arising out of the operation of the said Tariff. The Board shall report its findings and recommendations to the Authority and the Corporation.

7. THAT the Authority and the Corporation shall, after five complete seasons of navigation have elapsed, and not later than July 1, 1964, report to their respective Governments as to the sufficiency of the authorized tolls to meet the statutory requirements, and to cause the Tariff to be reviewed accordingly.

THE ST. LAWRENCE SEAWAY AUTHORITY

B. J. ROBERTS
President

SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

LEWIS G. CASTLE
Administrator

Dated at Massena, New York
this 29th day of January 1959

Tariff of Tolls

Title

1. This tariff may be cited as the *St. Lawrence Seaway Tariff of Tolls*.

Interpretation

2. In this tariff,

(a) "Authority" means The St. Lawrence Seaway Authority;

(b) "bulk cargo" means such goods as are loose or in mass and generally must be shovelled, pumped, blown, scooped or forked in the handling and, without limiting the generality of the term or otherwise affecting its meaning, shall be deemed to include:

- (1) barley, buckwheat, corn, dried beans, dried peas, flaxseed, rape seed and other oil seeds, flour, grain screenings, mill feed containing not more than 35% of ingredients other than grain or grain products, oats, rye and wheat, loose or in sacks;
- (ii) cement, loose or in sacks;
- (iii) coke and petroleum coke, loose or in sacks;
- (iv) domestic package freight;
- (v) liquids carried in ships' tanks;
- (vi) ores and minerals (crude, screened, sized or concentrated, but not otherwise processed) loose or in sacks, including alumina, bauxite, coal, gravel, phosphate rock, sand, stone and sulphur;
- (vii) pig iron, scrap iron and scrap steel;
- (viii) pulpwood, poles and logs, loose or bundled;
- (ix) raw sugar, loose or in sacks;
- (x) woodpulp, loose or in bales;
- (c) "cargo" means all goods aboard a vessel

whether carried as revenue or non-revenue freight or carried for the vessel owner, except goods carried as ships' fuel, ballast or stores, or crew and passengers' personal effects;

(d) "Corporation" means the Saint Lawrence Seaway Development Corporation;

(e) "domestic package freight" means cargo, the shipment of which originates at one Canadian point and terminates at another Canadian point, or which originates at one United States point and terminates at another United States point, but shall not include any import or export cargo designated at the point of origin for trans-shipment by water at a point in Canada or in the United States;

(f) "general cargo" means all goods not included in the definition of bulk cargo under paragraph (b) above;

(g) "passenger" means any person being transported through the Seaway who has paid a fare for passage;

(h) "pleasure craft" means a vessel, however propelled, that is used exclusively for pleasure and does not carry passengers;

(i) "St. Lawrence Seaway" includes all facilities and services authorized under the St. Lawrence Seaway Authority Act, Chapter 242, Revised Statutes of Canada, 1952, and under Public Law 358, 83rd Congress, May 13, 1954, enacted by the Congress of the United States, and including the Welland Canal, which facilities and services are under the control and administration or immediate financial responsibility of either the Authority or the Corporation;

(j) "Seaway" means The St. Lawrence Seaway;

(k) "tolls" means the total assessment levied against a vessel, its cargo and passengers for complete or partial transit of the Seaway covering a single trip in one direction:

(l) "ton" means, unless otherwise stated, a unit of weight of 2,000 pounds;

(m) "vessel" means every type of craft used as a means of transportation on water, except a vessel of or employed by the Authority or the Corporation.

Tolls

3. (1) The tolls shall be as set forth in the Schedule hereto;

(2) The tolls under this tariff are due from the representative of each vessel as soon as they are incurred and payment shall be made to the Authority at Cornwall, Ontario, within fourteen days of the date of billing by the Authority. An additional charge for non-payment within this period may be levied in the discretion of the Authority in an amount not to exceed 5 per cent of the amount due.

(3) The tolls for the section between Montreal and Lake Ontario shall be paid 71 per cent in Canadian dollars and 29 per cent in United States dollars. Payments for transit through locks in Canada only shall be made in Canadian dollars, and payments for transit through locks in the United States only shall be paid in United States dollars.

(4) The tolls for transit of the Welland Canal shall be paid in Canadian dollars and shall accrue to the Authority.

Security for Payment

4. The representative of each vessel shall provide the Authority with security, satisfactory to the Authority, for payment of tolls.

Description and Weight of Cargo

5. (1) A cord of pulpwood shall be deemed to weigh 3,200 pounds.

(2) (a) 1,000 f.b.m. of sawn softwood lumber with less than 15% moisture content shall be deemed to weigh 1,700 pounds;
(b) 1,000 f.b.m. of sawn softwood lumber with 15% moisture content or over shall be deemed to weigh 2,100 pounds;
(c) 1,000 f.b.m. of sawn hardwood lumber with less than 15% moisture content shall be deemed to weigh 2,500 pounds;
(d) 1,000 f.b.m. of sawn hardwood lumber with 15% moisture content or over shall be deemed to weigh 3,100 pounds.

(3) The tonnage used in the assessment of tolls shall be calculated to the nearest 2,000 pounds.

Schedule

	Tolls		
	Montreal to or from Lake Ontario	Lake Ontario to or from Lake Erie (Welland Canal)	Complete transit (total)
1. For transit of the Seaway, a composite toll, comprising—			
(1) a charge per gross registered ton, according to national registry of the vessel, applicable whether the vessel is wholly or partially laden, or is in ballast-----	\$0.04	\$0.02	\$0.06
(2) a charge per ton of cargo, as certified on ships' manifest or other document, as follows: —bulk cargo----- .40 .02 .42 —general cargo----- .90 .05 .95			
(3) a charge per passenger-----	3.50	4.00	7.50
(4) minimum charges, subject to the provisions of sub-items (1), (2) and (3) above: —pleasure craft----- 14.00 16.00 30.00 —other vessels----- 28.00 32.00 60.00			

2. For partial transit of the Seaway:—

(1) Between Montreal and Lake Ontario, in either direction, 15 per cent per lock of the applicable toll;

(2) Between Lake Ontario and Lake Erie, in either direction, (Welland Canal), 50 per cent of the applicable toll; no toll to be assessed unless at least one lock is transited, or with respect to Lock 1 of the Third Canal at Port Dalhousie, Ontario.

(3) Minimum charges:

—pleasure craft, \$2.00 per vessel per lock transited;
—other vessels, \$4.00 per vessel per each lock transited.

Prime Minister of French Cameroun Visits Washington

The Department of State announced on March 14 (press release 187) that Prime Minister Ama-dou Ahidjo of Cameroun (under French trusteeship) will be in Washington on an unofficial visit March 16-17.

Prime Minister Ahidjo has been in the United States attending the resumed session of the U.N. General Assembly, which has been concerned with the termination of the French trusteeship over Cameroun and the accession of that country to independence by January 1, 1960.

His Washington program includes calls on Acting Secretary Herter and Deputy Under Secretary Murphy.

The Prime Minister will be accompanied by the following members of the Camerounian delegation to the resumed session of the U.N. General Assembly: Daniel Kemajou, President of the Cameroun Legislative Assembly; Gaston Behle, Minister of Labor and Social Laws; and Jean Betayene, Director of the Prime Minister's Cabinet.

U.S. Officials and GATT Chairman Discuss Economic Matters

Press release 184 dated March 13

During his visit to Washington on March 12, Fernando García Oldini, Chairman of the Contracting Parties to the General Agreement on Tariffs and Trade (GATT) for 1959, and Chilean Ambassador to Switzerland, conferred with State Department officials on GATT affairs and on plans for regional market arrangements in Latin America.

Thirty-seven countries, which account for almost 85 percent of free-world trade, are Contracting Parties to the GATT. Their general sessions are the principal means for dealing with world trade problems. In his capacity as Chairman, a

position to which he was elected for a 1-year term last fall, Mr. García Oldini will preside over the two general sessions of the Contracting Parties to be held in May and October of this year.

Mr. García Oldini has represented his Government in the work of the Contracting Parties to the general agreement ever since its inception in 1947. He also represented Chile at the Habana conference in 1947-48. He was Chilean Minister at Bern in 1937-38 and Chilean delegate to the League of Nations. He is a former Chilean Minister of Foreign Affairs and a former Minister of Labor. In 1953 he was President of the Council of the International Labor Office.

During his brief stay in Washington Mr. García Oldini discussed the principal issues now confronting the Contracting Parties. Among these are preparations for another general round of tariff negotiations, including agreement by the Contracting Parties on sponsorship of such negotiations, and, given such agreement, determination of their scope, location, and timing.

At the 13th session last October the U.S. representative, Under Secretary of State C. Douglas Dillon, urged the six members of the European Common Market and other contracting parties to agree to a further round of tariff negotiations. The United States would like these negotiations to be completed prior to January 1, 1962, when the six member countries of the European Economic Community take the first step in establishing a common external tariff. During discussions with Mr. García Oldini, State Department officials again emphasized the importance which the United States attaches to these negotiations and to their timing.

Mr. García Oldini and State Department officials also discussed the relationship of the GATT to regional markets, such as the European Economic Community and the proposed regional arrangements in Latin America.

Development Loans

Turkey

The United States on March 9 announced authorization of a loan of \$14.5 million by the Development Loan Fund to the Turkish Coal Enterprises to finance foreign exchange costs of further developing the output of the Zonguldak bitumi-

nous coal mines in Turkey. (For details, see Department of State press release 167 dated March 9.)

SEATO Offering Research Fellowships to Citizens of Member States

Press release 168 dated March 9

The Southeast Asia Treaty Organization is offering a limited number of advanced research fellowships for the 1959-60 academic year to established scholars of SEATO countries as part of its cultural relations program.

The object of the fellowship program is to encourage the study and research of social, economic, political, cultural, scientific, and educational problems that are related to the present needs and future development of southeast Asia and the southwest Pacific area.

Candidates must be nationals of member states and should plan to undertake their research in SEATO countries situated within the treaty area. The grants are intended for well-established scholars, and candidates will be selected on the basis of their aptitude and experience for carrying through major research projects.

Each grant will provide a monthly allowance of \$400 and tourist-class air travel to and from the countries in which the research is to be conducted.

The preliminary screening of applications from U.S. candidates for the SEATO fellowships will be done by the Committee on International Exchange of Persons of the Conference Board of Associated Research Councils, 2101 Constitution Ave. NW, Washington 25, D.C. The committee will recommend candidates to the Department and the President's Board of Foreign Scholarships. A panel of U.S. nominees will be selected and submitted to SEATO headquarters in Bangkok, where final selections will be made and announced in August 1959.

Application forms and additional information may be obtained directly from the Committee on International Exchange of Persons. Applications should be submitted no later than April 15, 1959.

The member nations of SEATO are Australia, France, New Zealand, Pakistan, the Philippines, Thailand, the United Kingdom, and the United States.

Administration Supports Legislation To Increase U.S. Contributions to International Monetary Fund and World Bank

Following are statements made by Robert B. Anderson, Secretary of the Treasury, and Douglas Dillon, Under Secretary of State for Economic Affairs, before congressional committees on proposed legislation to increase the U.S. quota in the International Monetary Fund, the U.S. subscription to the International Bank for Reconstruction and Development, and the capital of the Bank.

STATEMENT BY MR. ANDERSON, MARCH 3¹

I am pleased to appear before your committee today to testify on behalf of the legislation to carry out the recommendations made by the President to the Congress in his message of February 12, 1959.² The purpose of H.R. 4452 and H.R. 4453 is to authorize increases in the United States quota in the International Monetary Fund and in its subscription to the capital of the International Bank for Reconstruction and Development, and increase in the capital of the Bank, by amending the Bretton Woods Agreements Act of 1945.³

The International Monetary Fund and the International Bank were created by international agreement arrived at during the conference at Bretton Woods, New Hampshire, in 1944. United States participation was authorized by the Congress in 1945 through the adoption of the Bretton Woods Agreements Act. These two international institutions represent one of the most important efforts to deal with the longrun international financial and economic problems of the

¹ Made before a subcommittee of the House Banking and Currency Committee.

² For text, see BULLETIN of Mar. 9, 1959, p. 347.

³ 59 Stat. 512.

free nations. They have now operated successfully for more than 12 years.

Each institution has its own distinct and very important field of activity. The Bank is concerned with the financing of economic development in the member countries through long-term loans. The Fund works in the field of foreign exchange and aims at assisting countries to maintain or achieve stable and convertible currencies, free of exchange restrictions. Sixty-eight countries have subscribed to the articles of agreement of the Bank and Fund, and each country appoints a governor, usually the secretary of the treasury, the minister of finance, or the head of the central bank. I am the U.S. Governor in both institutions, and the Under Secretary of State, Mr. C. Douglas Dillon, is the Alternate Governor. The day-to-day work of the institutions is carried on by Boards of Executive Directors located in Washington and by the managements, consisting of a president in the case of the Bank and a managing director in the case of the Fund, with technical staffs. The U.S. Executive Director for the Bank is Mr. T. Graydon Upton and for the Fund is Mr. Frank A. Southard, Jr.

The Bretton Woods Agreements Act created the National Advisory Council on International Monetary and Financial Problems to coordinate and supervise United States participation in the Bank and the Fund and other international financial matters. The members are the Secretary of the Treasury as chairman, the Secretaries of State and Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and the President of the Export-Import Bank. In accordance with the provisions of that act the Council has regularly reported to the Congress on the activities of these institutions and in its special reports has dealt with the basic questions of

policy relating to them. All of these reports, under the present administration and previous administrations, have expressed the judgment that the Fund and the Bank have played major and successful roles in fostering sound financial policy and promoting economic development. These reports have also indicated that the two institutions, in carrying out their policies in accordance with their articles of agreement, have been fulfilling some of the important objectives of the United States in foreign financial and economic policy.

Members of the Senate and House participated in the formulation of the articles of agreement. My predecessors as well as I, as United States Governor, have invited Members of the Senate and House to attend the annual meetings of the Boards of Governors as members of the United States delegation. Members of Congress have attended every annual meeting, including the more recent ones abroad at Mexico City, Istanbul, and New Delhi. This congressional participation has been most welcome and helpful.

The Bretton Woods Agreements Act provides that Congress must authorize increases in the capitalization of the Bank, the United States subscription to the capital of the Bank, and the United States quota in the Fund. The proposed amendments to the Bretton Woods Agreements Act as contained in H.R. 4452 and H.R. 4453 are intended to give such authorization. It is our view that these recommended increases, together with the proposed increases in the subscriptions and quotas of the other members, should be sufficient to permit these bodies to continue their useful work in the foreseeable future. This is the only approach which has been made to member governments for additional resources since the two institutions began operations in 1946.

I might at this point note that the contribution which we make in the form of capital to the Fund and the Bank is the only financial support we give to these institutions. Within the framework of their capital structure they are self-supporting. No periodic appropriation is needed to cover our financial participation. The Bank and the Fund defray their expenses out of the income earned from their operations. Moreover, as I shall point out presently, the increase in our subscriptions will involve a present cash outlay by

the United States that is large but is a relatively small proportion of the total new subscriptions. No budgetary provision is needed in the case of the Bank, and, while in the case of the Fund the entire additional quota of \$1.375 billion is included in the budget, only the gold payment of \$344 million really represents an immediate cash expenditure. Since the purposes and operations of the Fund and the Bank differ and the budgetary consequences of increasing our subscription also differ, I shall take up the two institutions successively and explain the differences in the procedures contemplated by the President's message.

The International Monetary Fund

The International Monetary Fund was created as a permanent international organization to promote sound foreign-exchange policies through the elimination of exchange restrictions, to assist in the establishment and maintenance of convertible currencies, and to give greater assurance of stability in exchange markets. The Fund has worked toward these objectives by annual consultations with members, technical advice in setting up stabilization programs, and short-term advances to, or standby arrangements with, member countries. These activities have grown in scope and increased in effectiveness in the past 12 years and have been accompanied by real progress by member countries in achieving good results in the foreign-exchange field.

The Fund does not finance longrun development programs, nor is it intended to provide long-range economic assistance to improve the standards of living of its member countries. In simple terms, the Fund is a short-term credit institution which assists the monetary authorities of the member countries to carry out sound financial policies. Fund advances are repayable in 3 to 5 years at the outside limit. As table 1 shows, the presently outstanding drawings are within these limits, almost all earlier drawings having been repaid. The Fund's resources in gold, dollars, and other leading currencies are regarded by the members as a secondary line of reserves which can be drawn upon under appropriate conditions to supplement their own reserves of gold and foreign exchange at times when they have encountered temporary difficulties.

TABLE 1—*International Monetary Fund: Transactions Outstanding on December 31, 1958*

(Time elapsed from purchase to December 31, 1958)

	Amount in millions of U.S. \$
Up to and including 12 months.....	349.13
13 to 18 months.....	203.83
19 to 24 months.....	987.27
25 to 30 months.....	88.38
31 to 36 months.....	17.00
37 to 48 months.....	25.00
49 to 60 months.....	20.25
over 60 months.....	2.50
Total outstanding, December 31, 1958.....	1,693.36

Fluctuations in the balances of payments of the member countries can be of considerable size. These fluctuations have occurred over the years for a variety of reasons, including shifts in trade and investment, political events, and the interaction upon each other's economies of changes in price levels and reserve positions of the member countries. The resulting increases or decreases in reserves can be very large and can occur very quickly. Fund assistance gives a member country a breathing spell in which it can make the necessary adjustment in its internal and external policies so as to restore equilibrium without unduly increasing restrictions on international transactions.

The proposed legislation involves no change in the method of operating the Fund and no change in its policies. What is proposed is to give the Fund more adequate resources to attain its objectives under present world conditions. The existing quotas, which at the end of 1958 amounted to \$9.2 billion, were based on data for the period preceding the Bretton Woods conference. These data included factors such as pre-war foreign trade, the relative size of the national incomes, and the monetary reserves of the member countries. On this basis the United States quota was set at \$2.75 billion.

Since 1944 the relevant magnitudes of the factors affecting the balances of payments of the member countries have changed enormously. There have been very large increases in national incomes, in the volume and value of world trade, in price levels, and in monetary reserves. With the increase in the value of trade and financial transactions, the magnitudes of the fluctuations in foreign-exchange earnings and in reserves have also increased. In 1937, for example, as table 2 shows, total imports of the free world amounted to about \$27 billion, compared with about \$100

billion at present. This great expansion in the total value of world trade has resulted from the combined effects of the increase in prices since the war and the larger volume of goods traded. Both factors have been important. Along with this very large increase in the value of world trade, there has been a corresponding growth in various service transactions (such as tourist expenditures) and in capital movements between countries.

TABLE 2—*Free World Trade, 1937 and 1950 Through 1958*

(Expressed in millions of U.S. dollars)

Calendar years	Exports (f.o.b.)	Imports (c.i.f.)
1958 (estimate).....	94,000	99,000
1957.....	100,484	107,429
1956.....	93,647	98,206
1955.....	84,317	88,980
1954.....	77,677	79,608
1953.....	74,875	76,569
1952.....	73,891	80,196
1951.....	76,573	81,399
1950.....	56,690	59,338
1937.....	24,199	27,275

Source: Based on *International Financial Statistics*.

The result has been that Fund quotas have shrunk greatly in relation to the pressures on foreign-exchange reserves to which Fund members are subjected. Taking one simple measure, the percent of quotas to total imports, the quotas of most members are less than 10 percent of their annual imports. In time of need a country finds that the temporary assistance it can hope to obtain from the Fund is scarcely equal to 1 month's imports. This illustrates vividly the need for increased quotas and larger total resources if the Fund is to be able to meet large and sudden foreign-exchange situations and if members are to regard their quotas as reasonably adequate second lines of reserves.

The Fund's Exchange Transactions

The Fund's holdings of gold and dollars and other useful currencies comprise a pool or reserve available to be used quickly when needed. The experience of the Fund, since its creation, has shown that the need for Fund assistance has fluctuated greatly over the years. On chart 1,⁴ you will see the volume of the Fund's exchange transactions since it started operations. This chart also shows the rate at which resources were returned to the Fund. As repayments are made, the country whose currency has been used in the

⁴ Not printed here.

repayment takes back the cash in excess of the Fund's working balances in exchange for non-interest-bearing notes. Large amounts of dollars have flowed back to the U.S. Treasury in this way during periods when repayments in dollars have exceeded new drawings.

When a member country requests assistance from the Fund, it buys a currency it needs for a relatively short period of time by selling its own currency to the Fund in exchange. For example, under the arrangement recently agreed to with Argentina, as that country needs dollars to meet a temporary foreign-exchange deficit, it buys the dollars from the Fund and pays the equivalent in pesos to the Fund. The same procedure would be used to obtain, say, deutsche marks or sterling. This type of transaction is what is meant by a drawing on the Fund. The total of the Fund's assets does not change, but the currency composition of the Fund does change with each transaction. Then after a period of time the country which has drawn from the Fund repurchases its own currency from the Fund, using gold or convertible currency for this purpose. In this way the Fund's assets are restored to their original position.

If you will look at chart 1, you will see that in 1947 the Fund had exchange transactions of \$468 million. The annual amount decreased in 1948 and 1949, and Fund transactions were relatively small in amount up to 1956. This was partly because the large requirements of postwar reconstruction were being met principally from other sources and also because, in the strong economic upsurge in the latter part of this period, Fund members as a whole did not need short-term assistance. Moreover, in the earlier years the Fund, as a new institution, proceeded cautiously in working out policies on the use of its resources. In fact, if you will look at the dotted line on the chart, you will see that between 1950 and 1956 the member countries which had previously used the Fund's assets had for the most part repurchased their currencies from the Fund. At the end of 1955 outstanding drawings on the Fund had been reduced to a total of \$234 million. The outstanding amounts consisted mainly of drawings made in 1953 and 1954 by Japan and various Latin American countries.

Two developments account for the very great increase in use of Fund resources in the last 3 years. First, a period of acute exchange difficul-

ties began late in 1956 with the Suez situation and culminated in the exchange crisis of May-September 1957, which led to very large demands on the Fund. In little more than a year dollar drawings amounted to \$1.6 billion and standby commitments reached almost another billion dollars. Second, the Fund has been very active in assisting member countries to carry out stabilization programs. In these circumstances of severe exchange crisis and of monetary and exchange stabilization the Fund has made its resources decisively available. The Fund's resources were thus a vital element in surmounting major financial emergencies which would have had damaging effects on a worldwide basis if they had not been brought quickly to an end and in supporting important efforts by countries to restore financial stability.

Chart 1 shows that the Fund's resources revolve. Its transactions are not long-term loans which will be outstanding for many years. They are transactions which are reversed within a relatively short period of time. The quality of the resources is not impaired in this process since repurchases are made in gold and convertible currencies. Of the total drawings to date, the currency used has been mainly the dollar. There have also been substantial drawings of sterling and deutsche marks and small drawings of Canadian dollars, Belgian francs, and Dutch guilders. Belgium, the Netherlands, and the United Kingdom have been in the position of drawing dollars from the Fund at times when they needed dollars but also at other times having their currencies drawn by other countries which needed them. The recently widened convertibility of major European currencies should facilitate drawings of these currencies. However, the Fund's holdings of gold and U.S. dollars will continue to be the most essential elements in its operations. With gold the Fund can obtain any needed currency. Moreover, if a country with a major currency should encounter foreign-exchange difficulties, it would ordinarily draw dollars from the Fund to carry out support operations.

The Fund must be in a liquid position if it is to operate satisfactorily as a second line of reserves for its members. This means that it must have adequate amounts of dollars and other major currencies which members can draw to help surmount their foreign-exchange difficulties. The

members must have the assurance that under appropriate conditions they can count upon the Fund to come to their aid when they have balance-of-payments deficits or are undertaking important programs of financial and economic stabilization. It can never be predicted which country will need the Fund's aid or precisely how much it will need. But the Fund must have adequate resources when help is needed and be ready to act promptly. As shown in chart 2,⁵ at the end of 1958 the Fund's gold and dollar resources amounted to \$2.3 billion, against which there were standby commitments of \$911 million. The net amount of \$1.4 billion was small in relation to potential demands. As I have explained, the Fund's resources were reduced to this level principally by the large drawings and standby commitments arising out of the exchange crises of 1956-57. At their present level, the Fund would not be in a position to meet a recurrence of a drain of that magnitude. But the Fund must be able to cope with big demands, no matter how frequently or how unexpectedly they occur.

Standby Arrangements

In addition to making cash advances, the Fund enters into standby arrangements with members. These standby arrangements provide an assured line of credit, giving the country the right to draw up to a specified amount within a stated time, usually a year but sometimes 6 months. Standby arrangements have been used to assist countries to maintain the par value of their currencies or to undertake important financial reforms, such as the establishment of new exchange systems or the elimination of complex multiple-currency practices. An important example is the large standby arrangement presently outstanding in favor of the United Kingdom. Another is the one recently concluded with the Argentine Republic. The Fund at the end of 1958 had outstanding commitments amounting to \$911 million under these standby arrangements. At times the fact that a country has a standby arrangement provides in itself sufficient reassurance, and there is no need actually to draw against it. For example, the United Kingdom has not drawn against its standby arrangement, and the Netherlands did not draw throughout the life of the arrangement entered into in 1957.

⁵ Not printed here.

At a number of points I have mentioned that the Fund uses its resources to assist members to maintain or attain the objectives set forth in the articles of agreement, including stable and convertible currencies, freedom from restrictions on payments, and expanding world trade. To this end, countries seeking to draw on the Fund or enter into standby arrangements beyond the amount of the gold payment must satisfy the Fund as to the policies and measures which are expected to restore or maintain internal and external stability. In some instances, for example, where the country has need of assistance only to meet a seasonal exchange shortage, a simple reaffirmation of existing policies is sufficient. But in other cases, where the balance-of-payments difficulties are large and persistent and arise from substantial imbalance in the domestic economy usually reflected in severe inflation, what is needed is a comprehensive stabilization program, including action in the fiscal, credit, and exchange fields. The Fund consults closely with any member which requests its advice in working out such a program. If an adequate program is developed and the member assures the Fund that it will be carried out, the Fund will make its resources available through a drawing or a standby arrangement or both. In some instances U.S. banks and agencies of the U.S. Government have joined in assisting the stabilization effort as have also the Organization for European Economic Co-operation and some European governments. Many examples of this work of the Fund could be cited, including Argentina, Brazil, Chile, France, Haiti, Paraguay, and Turkey. These stabilization programs are difficult and complex efforts. The Fund, as an international institution, is able to bring to bear a degree of objective judgment and to insist on rigorous corrective measures in a way which no government could successfully attempt in advising another government. The Fund keeps the programs under close review and consults with the member country as to the progress being made. They have not all been carried out to the full extent of the original plan. But even the least successful have had beneficial results. In my view these stabilization activities are one of the most important and beneficial parts of the Fund's work.

Proposal for Increasing Member Governments' Quotas

The large and important financial operations of the Fund in the past few years have made it

clear that consideration should be given as to the adequacy of Fund resources to meet foreign-exchange emergencies and other demands in the future. It was this situation which led the President last August to direct me to propose to the Board of Governors of the Fund "that prompt consideration be given to the advisability of a general increase in the quotas assigned to the member governments."⁶ In October I introduced a resolution at the New Delhi meeting of the governors calling on the executive directors to study and report on this question,⁷ and the resolution was unanimously adopted. The directors did so and on December 21, 1958, submitted their report to the governors accompanied by appropriate resolutions. Copies of this report have been supplied to the members of this committee. On the closing date for voting, governors with 99 percent of voting power had approved the resolutions.⁸

The resolutions proposed by the Fund for action by the governments can be summarized very briefly. It is proposed to increase the quotas of most countries by 50 percent. This would increase the United States quota by \$1.375 billion, from \$2.75 billion to \$4.125 billion. Very small quotas will be adjusted to bring them up to a reasonable level. The quotas of three countries—Canada, Germany, and Japan—will be increased substantially more than 50 percent. I am sure you will agree that the willingness of these three countries to make this relatively larger contribution to the Fund's resources is a vivid evidence of the importance which members attach to the role of the Fund. Deutsche marks and Canadian dollars have been among the currencies which Fund members have drawn.

Every country will be required to pay 25 percent of its increase in quota to the Fund in gold. This means that, while the increase in the quota of a country gives it additional drawing privileges on the Fund, each country is also required to add proportionately to the Fund's gold reserve. The United States will pay \$344 million in gold, and the other members as a group will pay a total of

⁶ For an exchange of letters between the President and Mr. Anderson, see *BULLETIN* of Sept. 15, 1958, p. 412.

⁷ For statements made at the meeting by Mr. Anderson and Mr. Dillon, see *ibid.*, Nov. 17, 1958, p. 793.

⁸ For announcements made by the Bank and Fund on action to increase resources, see *ibid.*, Feb. 23, 1959, p. 279.

about \$900 million. Gold is the basic and most liquid resource of the Fund. The Fund has sold gold to the United States to obtain dollars in the past, and it will undoubtedly do so again when conditions warrant. Similarly, with gold the Fund can buy sterling or marks or any other currency when its holdings of the currency are low. The Fund is an international cooperative effort; other countries will make their payments to the Fund, and in the aggregate these will be large.

The increase in Fund quotas will be effective only as the member countries increase their subscriptions to the Bank. This will maintain the parallelism between the Fund and the Bank which has existed since their foundation, each institution working in its own field and the two aiming at a prosperous and expanding economy for the free world.

I should make clear that the proposed increase in the quota of the United States does not mean that the Fund will spend these new resources at once. The United States will pay one-fourth of its quota increase in gold, but the balance will be held in non-interest-bearing demand notes, which will not represent a cost to the United States until such time as the Fund cashes them. Moreover, when the Fund's holdings of dollars increase as a result of repayments, the Fund returns cash to the U.S. Treasury and takes new notes. In this way the cost of our participation in the Fund is kept to the minimum, as required by the Bretton Woods Agreements Act. As I mentioned earlier, there have been a number of years in which the Fund returned more dollars to the U.S. Treasury than it took out for new drawings.

This concludes my discussion of the Fund. The bill before you proposes to authorize me, as U.S. Governor for the Fund, to consent to an increase of 50 percent in the quota of the United States, and it makes financial provision for this increase through a public debt transaction in the same way as the original Bretton Woods Agreements Act did. In my opinion it is essential that the Fund should have these enlarged resources promptly.

International Bank

I turn now to the proposed increase in the capital of the International Bank and in the U.S. subscription to the capital. The members of the committee, I am sure, are generally familiar with

the work of the Bank. Its function is less complex than that of the International Monetary Fund. The Bank advises member countries in the field of economic development and makes long-term loans to finance such development. The reconstruction phase of the Bank's activities ended a few years after its organization. In this period the Bank made important loans to assist reconstruction in France, Denmark, Luxembourg, and the Netherlands. Since that time, it has devoted its loans entirely to economic development. Chart 3* shows commitments and disbursements by years. The Bank has made a few loans to European countries for special purposes, such as the economic development of southern Italy and the construction of powerplants in Austria. But the bulk of its loans have been for development purposes in Asia, Africa, the Middle East, and Latin America.

The largest single item for which the Bank has made loans is the construction of electric powerplants and the distribution of electrical energy. This single purpose accounts for about one-third of the development loans. About another third has been loaned for the improvement of transportation facilities, ports, harbors, railways, and highways. The balance of the loans have been for various industrial projects and agricultural reclamation and improvement purposes. The Bank's activities are worldwide. It has made over 200 separate loans amounting to \$4.3 billion in the course of its 12 years of activity, and these loans have gone to 49 different countries.

The Bank lends only to member countries or with the guaranty of member countries. When it lends to private business, the loan must be guaranteed by the government of the country in which the project is located. Each loan follows a period of intense study, engineering examination, and negotiation. The loans which the Bank has made have been sound, and the Bank has had no defaults. We believe that the Bank's activities are important for the basic objective of the United States in assisting the economic development of the less developed countries.

The Bank also gives extensive technical services to its members, assisting them in the formulation of projects and the direction of their capi-

tal investments into appropriate channels. These technical services are performed in several ways, notably by sending well-planned technical missions to the member country to survey the entire economy. These surveys are an important guide to the Bank's lending activities.

The Bank obtains most of the funds for its loans from the paid-in capital subscriptions of its members and the sale of its own bonds to investors. The uncalled capital comprises a guaranty fund which is the indispensable backing for the Bank's bonds. I shall have to go into the financial structure of the Bank in some detail to make clear exactly what is proposed in the bill before you, which would give the consent of the United States to an increase in its subscription and an increase in the total capital of the Bank, so as to enlarge the guaranty fund.

The Bank's Capital

The Bank's capital is divided into three parts. The first part, 2 percent of every member's subscription, must be paid to the Bank in dollars at the time the country joins the Bank. The second part, 18 percent, is paid in by members in their own currencies and may be used by the Bank only with the consent of the member and under the conditions specified by it. The third part, 80 percent of the capital, comprises the uncalled capital or guaranty fund. It may be called by the Bank only to meet its obligations on securities which it has issued or guaranties which it has given.

The 2 percent and the 18 percent of capital are available for the Bank's operations. Up to date, the Bank has used the entire 2 percent and approximately \$1 billion out of a total of \$1.7 billion of the 18 percent subscribed capital. Member countries have agreed to make available to the Bank an additional \$260 million within the next few years. About \$450 million of the 18 percent capital remains to be released by various member countries, almost all of which are importers of capital.

The bulk of the Bank's funds for financing its operations has come not from its own capital but from the sale of securities to investors in the United States and abroad. It now has outstanding in bond issues \$1.8 billion, of which \$1.5 billion are denominated in dollars and the balance in Swiss francs, deutsche marks, Canadian dollars, Netherland guilders, and sterling. The bonds

* Not printed here.

denominated in dollars have not all been sold to American investors. Some short-term issues have been sold entirely outside of the United States to foreign investors, largely central banks, which have used the Bank's bonds as a form of dollar investment of their monetary reserves. Moreover foreign private investors have purchased the Bank's bonds for ordinary investment purposes in the same way as have American investors. The Bank estimates that approximately 60 percent of its bond financing has come from American investors and the balance from abroad.

Investors have recognized that the Bank has operated prudently and that its loans have been sound. This has done much to establish the high quality of the Bank's bonds. However, the ability of the Bank to sell its bonds to institutional and individual investors depends in large part on the fact that back of the Bank's own assets is the contingent liability of the member governments to meet the obligations of the Bank through possible calls on the uncalled 80 percent portion of the capital. In other words this 80 percent portion of the Bank's capital constitutes a guaranty undertaken jointly and severally by all the member governments to supply dollars or other currencies needed to meet the Bank's obligations in the unlikely event that the Bank cannot meet these obligations from its own sources. There has been no call on the 80 percent capital, and there is little likelihood of a call unless there should be a drastic deterioration of the international financial situation.

In accordance with its articles of agreement the Bank has since the beginning of its operations charged a special commission of 1 percent on all loans. The money obtained from these commissions has been placed in a special reserve and invested in U.S. Government securities. This fund now amounts to \$121 million. The Bank has also followed the policy, concurred in by the governors, of adding its annual net earnings to a supplemental reserve against losses, and this supplemental reserve is \$260 million. The reserve policy which has been followed gives added reason for believing that the Bank will not have to call up additional capital to meet its obligations.

Why under these circumstances are we requesting the Congress to approve an increase in the Bank's capital and an increase in the U.S. subscription? The answer is that only through these

increases can the Bank continue issuing the dollar bonds which will provide funds for large-scale lending operations.

The maximum contingent liability of the United States under the Bank's articles is at present \$2.54 billion. As I mentioned, against this the Bank has outstanding a funded debt of \$1.8 billion. Currently the Bank is lending at a rate of \$700 million to \$800 million a year. Its borrowings in the last year amounted to \$650 million, as chart 4¹⁰ shows, and may reach a larger amount in coming years. Continuation of the Bank's lending at its present rate can be successfully carried out only if more and more investors can be convinced that the bonds of the Bank are and will continue to be of the highest quality. In the judgment of the management of the Bank, most of the United States institutional investors and many of the non-United States investors in the Bank's dollar securities have been willing to take up, at reasonable rates of interest, the increasingly large and frequent offerings of the Bank's bonds chiefly because the bonds have the backing of the \$2.54 billion representing the uncalled 80 percent portion of the United States subscription. At the current rate of lending and borrowing the Bank within the next 2 years will reach the limit of the United States guaranty. As the amount of funded debt of the Bank approaches this point, the Bank is likely to find increasing hesitancy on the part of the market to take up its new issues of bonds. Some investors are already expressing concern over the relatively small remaining margin of the guaranty fund. The increase in the Bank's capital recommended by the directors of the Bank will give renewed assurance to investors that the Bank's bonds are and will continue to be of the highest quality and should provide the basis for continued favorable reception of the Bank's securities. This is the reason that we propose an increase in our subscription to the Bank along with an increase in the subscriptions of the other member countries.

Proposed Increase in Bank's Capital

The proposal which the Board of Governors of the Bank has approved by unanimous vote consists of two basic parts. The first is to increase the total authorized capital of the Bank to \$21 billion. The second is to increase the subscrip-

¹⁰ Not printed here.

tions of the present members by 100 percent. The increase in the capital to \$21 billion will provide shares for the increased subscriptions and also provide about \$1 billion of shares to take care of the admission of new members and adjustments in the subscriptions of various members which may be made from time to time in the future. The 100 percent increase in the subscriptions will more than double the security behind the Bank's bonds. The proposal provides that the Bank will not call up any part of the increased capital subscriptions unless it is necessary to meet obligations of the Bank, which, as I have already indicated, is a very remote contingency. Unlike the original subscriptions to the Bank, the first 20 percent of the additional capital will not be called up for use in the Bank's operations but will simply be added to the contingent obligations of the members in the form of subscribed but un-called capital. In this way there will be no cash expenditure required of the United States Government or other member countries. The United States will be increasing its contingent liability by \$3.175 billion.

There are two other features of the proposal which should be mentioned. While the general increase in capital is 100 percent, the capital subscriptions of Germany, Canada, and Japan are to be increased in larger proportions. This corresponds to the special increases proposed for the quotas of these countries in the Fund. Their additional capital subscriptions will raise the liability of these three countries to an amount more in line with their current standing in the world economy. Secondly, the increase in capital subscriptions is not to be effective unless at least \$7 billion of new capital is subscribed. In other words, the proposed greater contingent obligation of the United States to the Bank will become effective only if the members holding the bulk of the stock enlarge their liability at least proportionally.

The Bretton Woods Agreements Act provides that the Governor for the United States may not vote for an increase in the Bank's capital without the authorization of Congress and the United States subscription also cannot be increased without congressional action. The bill proposes to authorize me, as Governor for the United States, to agree to an increase in the Bank's capital to \$21 billion and an increase of 100 percent in the U.S.

capital subscription. As I have already noted, this does not call for any cash expenditure by the United States. It does not mean that the Treasury will have to issue any additional securities. We have had authority on the books for 12 years to issue Treasury securities if needed to meet our contingent obligations to the Bank. We have not had to use that authority, and we do not expect to use the authority to be given by the bill before you. I believe that, in the interests of the United States foreign economic policy, we should give this additional assurance to the investors who purchase the Bank's securities, so as to enable it to continue its great work of financing the economic growth of the less developed countries of the free world.

Conclusion

With these increases in our subscription to the Bank and our quota in the Fund, we will be making an important contribution to the economic well-being of the entire free world. The enlarged resources of the Fund should enable it to deal with the foreign-exchange difficulties and emergencies which may arise in the coming years. The increase in the capital of the Bank will enable it to continue to finance its lending operations through the sale of its bonds to American and other investors. These two institutions have amply demonstrated over the last 12 years that they can and do prudently and efficiently use the resources entrusted to them to advance the economic development of the less industrialized areas and to promote and maintain sound international exchange and financial policies.

The United States has played a leading role in the Bank and Fund since their inception. Other members are looking to us for early action in this move to strengthen the financial resources of these two institutions. In his message to the Congress President Eisenhower pointed out that there was real urgency for prompt action. I would also emphasize that it is most important for the United States Government to maintain the posture of leadership which it now occupies in connection with these proposals which are designed to insure further progress toward realizing a better life for the peoples of the free world.

It is my earnest hope that the Congress will promptly authorize the proposed increase in the

capital of the Bank and in the United States subscription in the Bank and quota in the Fund.

STATEMENT BY MR. DILLON, MARCH 4¹¹

I welcome the opportunity to appear before this subcommittee to urge favorable action on the proposed legislation to increase the United States quota in the International Monetary Fund and the United States subscription to the International Bank for Reconstruction and Development.

Secretary Anderson has reviewed with you in detail the basic purposes of the Fund and the Bank, the successful experience of the two institutions since they were founded in 1945, and the reasons why an increase in their resources is now necessary to keep them operating successfully over the years ahead. He has also explained the financial and budgetary implications of this increase insofar as the United States contributions are concerned.

For my part, I would like to emphasize the importance of the Fund and Bank to our foreign relations and in particular to the achievement of the objectives of our overall foreign economic policy.

These two institutions—one to promote world monetary stability, the other to assist in world economic development—were the outgrowth of the cumulative financial experience of many years and most particularly of the interwar period. They were born of the conviction that international financial cooperation is indispensable to prosperity and peace. No one can read the history of the years between the two world wars without being impressed by the failures of this tragic period, both economic and political, which might have been avoided by positive cooperation among nations in economic and financial matters, instead of the deeply divisive economic nationalism which in fact existed.

Since World War II economic problems have come to assume truly major proportions in our overall diplomacy. Indeed, the economic is now so pervasive in all our foreign relations that it is hard to find a single major problem which a modern statesman would regard as purely political or purely military. Today the safety of the American citizen depends as much upon the abil-

ity of the United States and other free-world countries to meet the Communist economic challenge as it does upon their ability to exert military force. And that ability to exert military force is in turn dependent upon the strength of the economic underpinning. The great spiritual struggle taking place between communism and freedom throughout the world of today is itself posed largely in economic terms.

The form, as well as the content, of our foreign relations has also been transformed. To national instruments of policy and bilateral relations between nations there has been added a new and influential instrumentality: the multilateral institution. In the field of economic relations, the Fund and the Bank are outstanding examples of multilateral institutions which have furthered objectives considered vital to the interests of the United States.

We continue to require national instruments of economic policy. Our bilateral economic relations with other governments are of great importance and must be carefully nurtured in the interest of our national security. We continue, for example, to need an effective mutual security program, an adequate Development Loan Fund, an Export-Import Bank. But it is no exaggeration to say that without the International Monetary Fund and the World Bank the financial burden on the United States would be far greater and the prospects of building a sound economic system in the free world would be far less.

The International Monetary Fund

Let me explain by way of example:

Last Christmas week most of the governments of Europe, led by the United Kingdom, France, and Germany, made a concerted and dramatic move toward the convertibility of their currencies. The immediate effect was to remove one of the major obstacles to the freedom of transfer of currencies. The long-range effect will be to give new impetus to the elimination of discriminatory restrictions which have hampered the trade of the United States and many other countries. As a result the economy of the entire free world will be strengthened and made more cohesive.

It is clear that this great forward step could not have been taken except for the existence and effective functioning of the International Monetary Fund, which has persistently encouraged its

¹¹ Made before a subcommittee of the House Banking and Currency Committee (press release 151).

member countries to achieve monetary stability and currency convertibility, which extended life-saving financial support to the pound sterling in 1956, and which worked out an effective stabilization program with France in 1957. The confidence provided by indications that the Fund's resources might be increased was undoubtedly also a factor in encouraging the European countries to make the convertibility moves they did.

Another example drawn from the experience of the Fund is its recent work with the Turkish Government.¹² Until last summer the economic situation in Turkey had grown progressively worse for several years. Inflation was severe, exports had fallen, and domestic industries were lying idle because of the lack of imported materials. Turkey, an important ally of the United States and a member of NATO, was on the verge of bankruptcy. Foreign assistance alone could not have brought about recovery in the absence of far-reaching changes in Turkey's economic policies. In the circumstances the International Monetary Fund sent a mission to Turkey which succeeded in working out with the Turkish Government a broad economic stabilization program involving a new exchange system and domestic measures to stop the inflation. This program, which was backed by financial assistance from the Fund itself, from the United States, and from many Western European countries, is now in effect and promises to restore Turkey to a condition of economic health. It is hardly necessary to stress the importance of this action to the United States and to Turkey's other partners in NATO.

In country after country the Monetary Fund has assisted its members to carry out sound financial policies in a spirit of cooperation with fellow members. As an international organization it is better able to advise sovereign governments on sensitive matters of financial policy, or to insist on appropriate corrective measures in return for credits, than are other sovereign governments. This, I think, deserves to be underlined. In the delicate area of fiscal and monetary policy, governments find it much easier to accept the counsel of an objective, impartial, and highly competent international organization than the advice of other governments, no matter how good or well intentioned. The weight of the Fund's counsel and its

influence is enhanced by the exceptional technical ability of its staff and its management.

As an international organization of recognized experience and competence in its field, the Fund has become a powerful force for international co-operation in financial matters and for sound financial policies. Its objectives have been similar to those of our own foreign financial policy, and its achievements have been of the greatest help to the national interests of the United States. The value of the Fund to the United States and to the entire free world will be substantially enhanced by the proposed increase in quotas, which will serve to strengthen its role in preserving international monetary stability.

The Work of the International Bank

I turn now to the International Bank.

As you know, the purpose of the Bank is to help promote economic growth and better living standards, especially in the less developed areas of the world.

The political, economic, and human significance of economic growth is difficult to exaggerate. We are dealing here with one of the major issues of our times. The continents of Asia, Africa, and Latin America are in ferment. The people of these continents have become aware that poverty is not ordained. They are pressing their governments for economic and social improvement, and their governments are committed to economic growth. The question, which is vital to our own future, is whether these countries and continents can achieve the growth they so urgently desire in an environment of freedom or whether, overwhelmed by massive problems, they turn to Communist rule in an effort to find the way out.

These countries have the human and material resources to become stable, effective, and responsible societies that value human liberty and dignity and that desire to cooperate with others to maintain the peace. But they need outside help to realize that potential. They need external capital, and they need technical aid. The major effort must be theirs, but we, the more developed and industrialized countries, can supply the critical margin of help that can make the difference. The political shape of the world of the future is here in balance.

As an example of the work the Bank is doing in

¹² BULLETIN of Aug. 25, 1958, p. 322.

this field of economic development, I cite the case of the subcontinent of India and Pakistan.

First, take the case of India. The Government of India and its people are making heroic efforts to modernize their economy and raise their living standards. They are trying to achieve economic development under a democratic system by popular consent. To the north, in close proximity, Communist China is trying to develop by forced draft under totalitarian rule. The entire free world, and not just India alone, has a stake in the success of India's efforts.

The magnitude of India's requirements for external economic assistance is beyond the financial and economic capacities of any one country to handle alone. In recognition of this fact the International Bank took the initiative in bringing together key creditor countries of the free world to help India. Last August, under the Bank's auspices, representatives from Germany, Japan, Canada, the United Kingdom, and the United States met to consider what they could do in a concerted way to help India meet the serious foreign-exchange situation arising from its development efforts. While formal commitments were not made, it was clear, on the basis of intentions expressed by the Bank and by the countries represented at the meeting, that India could expect some \$350 million of additional external assistance during the critical 6 months' period October 1958–March 1959, subject to further bilateral negotiations between India and those prepared to help. This assistance has since materialized, the United States making available through the DLF [Development Loan Fund] \$75 million, or just over 20 percent of the required \$350 million.¹⁸ The Bank itself has made very substantial investments in India. By the end of 1958 the Bank had committed in excess of \$500 million for a wide range of projects throughout India, including railroad and port development, steel production, and multipurpose power, irrigation, and flood control.

The Bank also has a large investment program in Pakistan, where it has committed over \$125 million in loans. Recently, on the invitation of the Government of Pakistan, the Bank has sent one of its able staff members to Pakistan to serve as permanent local representative of the Bank and

as adviser to the Government of Pakistan on development matters. This should be most helpful in forwarding the economic development of our friend and ally, Pakistan.

The Bank, on the invitation of the Governments of India and Pakistan, is also attempting to work out a mutually agreeable plan for the development of the waters of the Indus River. Success in this endeavor would remove one of the major sources of misunderstanding between India and Pakistan.

Thus the International Bank is not just a lending institution. It is a force for peaceful progress in a world of free and cooperating nations. It helps to fulfill an important United States objective. Our share in the larger resources required to allow it to continue its important role is an excellent investment in the future.

World Bank Not a Substitute for U.S. Lending Instruments

As I have indicated, the International Bank is not a substitute for our own national lending instruments. The Export-Import Bank, which antedates the International Bank, and the Development Loan Fund that we created 2 years ago to supplement the work of the two banks are also necessary to help the economies of the less developed areas of the free world. A primary purpose of the Export-Import Bank is to promote American exports, but its long-term loans, by facilitating the export of United States capital goods, also further the development of foreign countries. The DLF makes loans for meritorious development projects which cannot qualify for Bank lending, either because of the limited capacity of the borrower to repay in foreign exchange or because they involve expenditures in local currencies which cannot be financed by the World Bank or the Export-Import Bank, since these two institutions are limited in practice to financing the foreign-exchange costs of projects.

These three lending institutions complement each other and work closely together to meet a basic need. There is no overlap among them.

Bank's Role in International Diplomacy

I would like to reemphasize one aspect of the Bank's work that has been of importance to our foreign relations, although peripheral to the Bank's main function of promoting economic de-

¹⁸ *Ibid.*, July 14, 1958, p. 67.

velopment. I refer to its constructive role in international diplomacy. The prestige of the Bank among its members and its record of disinterested aid have led to calls on the Bank and on the Bank's management for their good offices in the mediation of economic controversies between member governments. In addition to its work on the Indus waters, which I have already mentioned, the settlement of the terms of compensation to be paid as a consequence of the nationalization of the Suez Canal,¹⁴ and the more recent settlement of claims between the United Kingdom and the United Arab Republic arising from the military action at Suez were in large part the handiwork of the Bank and its President [Eugene R. Black].

Before closing my testimony, I wish to comment briefly on certain distinctions which should be kept clear between the proposals now before the committee to increase the resources of the Fund and the Bank and other legislation which will be requested for financing the mutual security program.

First, it should be noted that the increases which are being sought in the resources of the Fund and Bank are intended to serve needs extending over a period of many years. The funds to be requested for the mutual security program, on the other hand, will be intended to finance operations for the single fiscal year 1960.

Second, a large part of the total increased financing requested for the Bank and Fund will never be spent at all, barring a deterioration in world financial conditions approaching catastrophe. This results from the fact that, of the total of \$4.55 billion which is being requested for the United States share of the increases in the resources of the two institutions together, \$3.175 billion would constitute an increase in the contingency reserves of the International Bank which could not be called upon except in the most unlikely circumstance that this money were needed to avoid a default by the Bank on its obligations to its bondholders. In other words, more than \$3 billion of the \$4.55 billion requested would have no budgetary or fiscal effect immediately and only the contingent possibility of such effects over the long run.

The remaining \$1.375 billion relates to the increase in the International Monetary Fund. As

Secretary Anderson has explained, 25 percent of this, or \$344 million, would be paid in gold and the balance of slightly more than \$1 billion would be held by the Fund in non-interest-bearing notes which would be cashed by the Fund only as needed over an indefinite period ahead.

The operations of the Fund and the Bank have marked a great forward step in international financial cooperation. They have amply demonstrated their value in promoting sound financial policies and in helping provide the framework and impetus for economic development. They have thus contributed to better political, as well as economic, relations among their member nations, which embrace almost the entire free world. It is clearly in our national interest to support an expanding role for these two institutions. Accordingly, the Department of State strongly supports the legislation now before you, authorizing the United States to join in providing the increased resources necessary for this purpose.

STATEMENT BY MR. DILLON, MARCH 12¹⁵

On several occasions I have had the privilege of meeting with your distinguished committee to discuss the mutual security program. I appear before you today on a subject which is of great importance to the success of that program, as it is indeed to the effective prosecution of our foreign economic policy as a whole: namely, the proposed legislation to enable an increase in the resources of the International Monetary Fund and the World Bank.

I will not go over the ground which Secretary Anderson has already covered with you concerning the financial aspects of the proposed legislation. Instead I wish to concentrate on the significance of the Fund and Bank to the foreign relations of the United States and especially on the importance of these two institutions as essential tools in the task of building a stable and prosperous economic order within the free world.

Whether or not we will continue to have a "free world" in the future will depend not alone on the ability of the free nations to protect themselves against external military assault but also on how successful they are in creating a prosperous and stable economic order.

¹⁴ *Ibid.*, Sept. 1, 1958, p. 349.

¹⁵ Made before the Senate Foreign Relations Committee (press release 178).

The military shield which we must have to deter open Communist aggression will not of itself prevent the subversion of free societies which fail to meet the economic and social challenges of the modern world.

It is in this sense that the threat of communism in the poverty-stricken less developed areas is most real. For this reason it is vitally important that the free nations take the constructive steps necessary to cure their own economic ills.

It has been the objective of the Fund and the Bank to help their member nations to attack two of the major economic weaknesses which have confronted the free world. The record of the Fund's persistent efforts to combat monetary instability and the record of the Bank's assistance to the less developed countries in their struggle to achieve adequate economic growth are widely recognized as outstanding contributions to the economic strength and cohesion of the free nations.

We have, of course, our own national programs to assist other countries economically. Our bilateral economic relations are important. They must be kept in a healthy state in the interests of our national security.

It is clear, for example, that we shall continue to need an effective mutual security program and an adequate Development Loan Fund if national objectives are to be furthered. It should also be noted that certain of our national programs have a special relationship to various domestic economic interests. Our Export-Import Bank, which helps to stimulate foreign economic development, serves in the first instance to provide important financial facilities to the American export trade. Similarly our Agricultural Trade Development and Assistance Act, or P. L. 480, reduces burdensome agricultural surpluses at home while providing food to those in need abroad.

Two Distinctive Functions of the Fund and Bank

Yet the Monetary Fund and World Bank perform two functions which could not be replaced by national programs, even if various limitations on these programs were removed and even if they were substantially larger in size than they are today.

First, the Fund and Bank are able to draw upon the economic resources of other free-world countries which are in a position to contribute.

This is a factor whose importance is steadily increasing. The United States is no longer the sole provider of economic help to a world in need. Other industrialized countries have achieved economic recovery with our earlier help through the Marshall plan and otherwise, and their currencies have now become relatively strong. These countries are much better able than before to extend balance-of-payments assistance to other countries through drawings of their currencies from the Monetary Fund or to extend development aid to the less developed areas through admitting the World Bank to their capital markets as a borrower.

Second, because of the international character of the Fund and the Bank, these institutions are better able to give sound economic advice to sovereign governments, with greater prospect that it will be accepted, than is the United States or any other national government. This is especially true in the sensitive area of internal fiscal and monetary policies and foreign-exchange rates, where governments find it much easier to listen to the counsel of the impartial and highly competent staff of the Monetary Fund than to the advice of a particular foreign government.

The confidence which the Fund enjoys in this respect, together with its ability to extend essential financial support in times of balance-of-payments difficulty, has enabled the Fund to exert a powerful force for the adoption of sound financial policies on the part of its member nations.

Turkey as an Example of Fund's Performance

The high quality of the Fund's performance is best illustrated by example:

In my appearance last week before a subcommittee of the House Banking and Currency Committee, I cited the case of Turkey, explaining how last summer the Turkish Government, acting on the advice of the Fund and with its financial support, adopted a thoroughgoing program of economic stabilization designed to overcome the severe inflation which had persisted for many years and which could not be cured by United States foreign aid in the absence of new Turkish economic policies.

Now I know that this committee is interested in the problem of coordinating national and international economic assistance programs and in the avoidance of duplication and conflicting effort.

I believe that the Turkish stabilization program will also show how several instrumentalities can be brought to bear in support of an overall program when the situation so requires. Let me describe briefly the main elements in this coordinated effort:

First, a program of exchange reform and anti-inflationary domestic fiscal and monetary policies was adopted by the Turkish Government in co-operation with the Monetary Fund and the Organization for European Economic Cooperation and with the knowledge of other member governments, including the United States.

Second, external financial assistance to support the program was extended by a Turkish drawing from the Monetary Fund, half of which was in dollars and half in German deutsche marks; by a credit from the European Payments Union to help Turkey meet its intra-European trade deficit; by bilateral credits to Turkey from many of the Western European governments, including Germany and the United Kingdom; and by new financial assistance to Turkey from the United States over and above existing levels of defense support.

Third, the assistance from the United States was itself a coordinated exercise involving several of our national programs. Defense support was continued; immediate balance-of-payments aid was provided through the contingency fund of the mutual security program; development assistance was extended by both the Development Loan Fund and the Export-Import Bank; P.L. 480 was used to supply needed agricultural commodities; and financial relief was given through the deferment of certain payments of interest and principal on outstanding ICA dollar loans to Turkey.

Fourth, an international conference was called in Paris to work out the principles which Turkey should follow in amortizing its large accumulation of debt to foreign private creditors on which payment had been stopped simultaneously with the announcement of the stabilization program.

In all this the International Monetary Fund was both catalyst and activator. The Fund's action in this case was clearly of great benefit to Turkey, to the United States, and to Turkey's other partners in NATO and the OEEC. It is also clear that the financial burden on the United States was lessened by this cooperative effort un-

der the leadership of the Fund. Indeed it is unlikely that the United States by itself would have been in a position to provide the required financing.

The example of Turkey is not unique. A similar coordination of national and international action was achieved earlier in the case of the French stabilization program of 1958 and more recently in the case of the Argentine stabilization program.

But whether it has operated alone or in combination with United States or other programs, the Monetary Fund has in country after country greatly furthered the cause of national monetary stability and international freedom of trade and payments. The recent dramatic moves of the United Kingdom, France, Germany, and other European countries toward currency convertibility, which will help to remove discriminatory restrictions against American and other free-world trade, were due in no small part to the earlier activity of the International Monetary Fund, including its vital support of the pound sterling in 1956 and its help to France in 1958.

The Fund's past accomplishments have demonstrated the value of this institution to the United States and to the rest of the free world. The proposed increase in quotas will strengthen the Fund in carrying forward international financial policies which have fully proven their worth in the national interests of the United States.

World Bank's Efforts in Less Developed Areas

The Fund's companion institution, the World Bank, has performed with equal effectiveness in the field of economic development.

The need to help the peoples of Asia, Africa, and Latin America in economic development is clearly one of the imperatives of our time. The United States and other capital exporting nations lend their support not for reasons of self-interest alone but because they believe it is right to use some part of what they produce to help the hundreds of millions in less developed lands to improve their economic status.

We look to our friends in Western Europe, the United Kingdom and other parts of the Commonwealth, and in Japan to participate increasingly with us in providing development assistance to the less developed areas, both through their subscriptions to the World Bank and by means of direct bilateral arrangements.

Last year the World Bank achieved the highest level of lending in its history, having committed loans of over \$700 million to less developed countries. It has also taken the initiative in bringing together a number of creditor countries in an exceptional effort to mobilize free-world development assistance in support of one of the largest and most critical development programs in the world, namely that of India.

I need not elaborate for this committee the key position which India inevitably occupies in the effort to attain more rapid economic growth in less developed countries. It is no exaggeration to say that failure of the great effort which India is making to achieve economic growth under conditions of freedom would be a grave setback for the whole of the free world.

The bulk of the effort required to make the Indian development program a success must come from India itself, but nevertheless the external assistance needed is large. It is too large for any one country to meet alone. For this reason the Bank last August arranged for a meeting of creditor countries—Germany, Japan, Canada, the United Kingdom, and the United States—to see what could be done to provide for immediate needs in the face of India's serious foreign-exchange situation. The result was that these countries, together with the Bank, were able to provide some \$350 million of additional assistance to India during the critical 6 months' period October 1958—March 1959. The contribution of the United States consisted of DLF loans amounting to \$75 million, or a little over 20 percent of the total.

At the same time the Bank is taking the lead in helping our good friends in Pakistan with their development program. The Bank has recently sent a permanent representative to Pakistan to advise that Government on the problems of development.

Important Methods of Cooperation Developed

In its 12 years of operation the International Bank has developed methods of cooperation with its member countries that are in themselves almost as important as the projects it has helped to finance. It works with its member countries to assess their resources, it examines with them the most fruitful direction in which to channel their efforts, and it helps them to devise investment

plans that attack the bottlenecks retarding growth. It has helped governments develop capital markets in their own countries. It has been an innovator in the creation of local development banks to stimulate and assist indigenous private enterprise. The keynote of its operations has been constructive realism.

Among the institutions that are engaged in development lending, the Bank is unique in that it raises its funds in largest part from the private capital market. The Bank is a vehicle through which private money is put to work in productive enterprises overseas. Today private capital is still reluctant to move on its own in any substantial volume into the continents of Asia and Africa. Many of the countries there are unstable and volatile; some are on the periphery of the Sino-Soviet bloc. Investors do not feel secure in moving into these areas. Apparently the risks of investment outbalance the gains. But private capital is prepared to move through the medium of the International Bank. The Bank has raised funds in the leading capital markets of the world in excess of \$2.3 billion equivalent. Insurance companies, banks, and trust funds have invested funds in the Bank's securities, and the Bank in turn has put these funds to work in the less developed and capital-poor countries of the free world. There has been no default to date on any Bank loan and no need for the Bank to call on member governments to help it meet its obligations to its bondholders. Nor do we anticipate any call on member governments in the future.

As Secretary Anderson has explained, the proposed increase in capitalization and government subscriptions to the Bank is a confidence-inducing measure. Its purpose is to assure private investors that they can continue with confidence to put their funds to work through the International Bank and thus make it possible for the Bank to continue unimpeded its important and creative work of making the free world strong and keeping it free.

I wish to comment briefly on certain distinctions which should be kept clear between the proposals now before the committee to increase the resources of the Fund and the Bank and other legislation which will be requested for financing the mutual security program.

First, it should be noted that the increases which are being sought in the resources of the Fund and Bank are intended to serve needs ex-

tending over a period of many years. The funds to be requested for the mutual security program, on the other hand, will be intended to finance operations for the single fiscal year 1960.

Second, a large part of the total increased financing requested for the Bank and Fund will never be spent at all, barring a deterioration in world financial conditions approaching catastrophe. This results from the fact that, of the total of \$4.55 billion which is being requested for the United States share of the increases in the resources of the two institutions together, \$3.175 billion would constitute an increase in the contingency reserves of the International Bank which could not be called upon except in the most unlikely circumstance that this money were needed to avoid a default by the Bank on its obligations to its bondholders.

In other words, more than \$3 billion of the \$4.55 billion requested would have no budgetary or fiscal effect immediately and only the contingent possibility of such effects over the long run.

The remaining \$1.375 billion relates to the increase in the International Monetary Fund. As Secretary Anderson has explained, 25 percent of this, or \$344 million, would be paid in gold, and the balance of slightly more than \$1 billion would be held by the Fund in non-interest-bearing notes which would be cashed by the Fund only as needed over an indefinite period ahead.

Before closing I wish to pay tribute to the Bank and President Black for their constructive role in international diplomacy. The Bank has used its good offices on several occasions to promote an amicable settlement of difficult economic controversies between its members. Agreement on the payment of compensation arising from the nationalization of the Suez Canal and the recent settlement of claims between the United Kingdom and the United Arab Republic were in large part the result of the Bank's disinterested mediation. Currently the Bank is seeking to arrange a plan for the development of the Indus River basin which will be acceptable to India and Pakistan, thus eliminating a major source of misunderstanding between the two countries.

The Bank and Fund together have come to occupy a key position in the structure of free-world economic cooperation. They have furthered principles of international economic behavior identical with those underlying our own foreign

economic policies. They have helped to mobilize in support of those principles the economic resources of many countries, thus easing the financial burden on themselves. An expansion of the activities of both institutions is required in order to bring greater economic strength and cohesion to the free world as a whole. For these reasons the Department of State strongly supports the proposed legislation enabling an increase in their financial resources.

Congressional Documents Relating to Foreign Policy

85th Congress, 2d Session

Atomic Energy Legislation Through 85th Congress, 2d Session. Joint Committee on Atomic Energy. December 1958. 230 pp.

86th Congress, 1st Session

Briefing on Current World Situation. Hearings before the House Committee on Foreign Affairs. January 28-29, 1959. 67 pp.

Countervailing Duty on Wool Top From Uruguay. Hearing before the Senate Committee on Finance. February 17, 1959. 61 pp.

Authorizing the Secretary of the Navy To Furnish Supplies and Services to Foreign Vessels and Aircraft. Report to accompany H.R. 3292. H. Rept. 77. February 25, 1959. 8 pp.

U.S. Participation in the International Atomic Energy Agency. The first annual report covering U.S. participation in the IAEA for the year 1957, in addition to U.S. participation in the Agency's preparatory commission, which functioned from October 26, 1956, to October 1, 1957, pursuant to the International Atomic Energy Agency Participation Act. February 26, 1959. 36 pp.

TREATY INFORMATION

Current Actions

MULTILATERAL

Postal Services

Regulations of execution of the Convention of the Postal Union of the Americas and Spain. Signed at Bogotá November 9, 1955. Entered into force March 1, 1956. TIAS 3653.

Ratification deposited: Panama, February 9, 1959. Agreement relative to parcel post, final protocol, and regulations of execution of the Postal Union of the Americas and Spain. Signed at Bogotá November 9, 1955. Entered into force March 1, 1956. TIAS 3654.

Ratification deposited: Panama, February 9, 1959.

Agreement relative to money orders and final protocol of the Postal Union of the Americas and Spain. Signed at Bogotá November 9, 1955. Entered into force March 1, 1956. TIAS 3655.

Ratification deposited: Panama, February 9, 1959.

Slavery

Slavery convention signed at Geneva September 25, 1926, as amended by the protocol of December 7, 1953 (46 Stat. 2183; TIAS 3532).

Accession deposited: Ukrainian Soviet Socialist Republic, January 27, 1959.

Trade and Commerce

Second protocol of rectifications and modifications to texts of the schedules to the General Agreement on Tariffs and Trade. Done at Geneva November 8, 1952.

Signature: Chile, February 2, 1959.

Entered into force: February 2, 1959.

Third protocol of rectifications and modifications to texts of the schedules to the General Agreement on Tariffs and Trade. Done at Geneva October 24, 1953.

Signature: Chile, February 2, 1959.

Entered into force: February 2, 1959.

Whaling

Protocol to the international whaling convention of 1946 (TIAS 1849). Done at Washington November 19, 1956.¹

Ratification deposited: Mexico, March 9, 1959.

BILATERAL

Canada

Agreement for construction and dredging of a new cut-off channel in the Saint Clair River section of the Great Lakes Connecting Channels under article III of the Boundary Waters Treaty of January 11, 1909 (36 Stat. 2448). Effectuated by exchange of notes at Ottawa February 27, 1959. Entered into force February 27, 1959.

Norway

Agreement approving procedures for reciprocal filing of classified patent applications in the United States and Norway. Effectuated by exchange of notes at Oslo December 5, 1958, and January 6 and 17, 1959. Entered into force January 17, 1959.

Philippines

Agreement concerning procedures for settlement of claims arising out of training and firing exercises conducted during January and February 1959. Effectuated by exchange of aide memoire dated at Manila January 21, 1959. Entered into force January 21, 1959.

DEPARTMENT AND FOREIGN SERVICE

Confirmations

The Senate on March 9 confirmed James W. Riddleberger to be Director of the International Cooperation Administration, in the Department of State.

¹ Not in force.

Designations

Henry Clinton Reed as Alternate Representative on the Council of the Organization of American States, effective March 6.

John M. Steeves as consul general at Hong Kong and Macao, effective March 8, 1959. (For biographic details, see press release 188 dated March 14.)

Sterling J. Cottrell as Political Adviser to the Commander in Chief, Pacific, at Honolulu, Hawaii, effective March 9, 1959. (For biographic details, see press release 189 dated March 14.)

Stellan C. Wollmar as director of the U.S. Operations Mission, Afghanistan, effective March 10. (For biographic details, see press release 171 dated March 10.)

PUBLICATIONS

Recent Releases

For sale by the Superintendent of Documents, U.S. Government Printing Office, Washington 25, D.C. Address requests direct to the Superintendent of Documents, except in the case of free publications, which may be obtained from the Department of State.

United States Educational Foundation in the Philippines. TIAS 4138. 4 pp. 5¢.

Agreement between the United States of America and the Republic of the Philippines, amending agreement of March 23, 1948, as amended. Exchange of notes—Signed at Manila September 18 and October 3, 1958. Entered into force October 3, 1958.

Military Advisory Mission to Brazil. TIAS 4139. 2 pp. 5¢.

Agreement between the United States of America and Brazil, extending agreement of July 29, 1948, as amended and extended. Exchange of notes—Dated at Rio de Janeiro March 4 and April 2, 1958. Entered into force April 2, 1958.

Weather Stations—Cooperative Program at Antofagasta, Quintero and Puerto Montt. TIAS 4142. 4 pp. 5¢.

Agreement between the United States of America and Chile, extending agreement of March 1, 1957. Exchange of notes—Signed at Santiago November 13 and 21, 1958. Entered into force November 21, 1958.

Air Transport Services. TIAS 4143. 6 pp. 5¢.

Agreement between the United States of America and Brazil, amending agreement of September 6, 1946, as amended. Exchange of notes—Signed at Washington December 1, 1958. Entered into force December 1, 1958.

Surplus Agricultural Commodities. TIAS 4144. 4 pp. 5¢.

Agreement between the United States of America and Brazil, amending agreement of December 31, 1956, as corrected and amended. Exchange of notes—Signed at Washington December 12, 1958. Entered into force December 12, 1958.

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No.	Date	Subject
167	3/9	DLF loan in Turkey (rewrite).
168	3/9	SEATO research fellowships.
†169	3/10	U.S. suggestions for inter-American economic development.
*170	3/10	Cultural exchange (Guatemala).
*171	3/10	Wollmar sworn in as USOM director, Afghanistan (biographic details).
172	3/11	Malaya credentials (rewrite).
*173	3/11	Cultural exchange (Brazil).
*174	3/11	Cultural exchange (Japan).
†175	3/11	Summary of DLF loans.
*176	3/12	Reid nominated Ambassador to Israel (biographic details).
177	3/12	Hanes: "The Individual and United States Foreign Policy."
178	3/12	Dillon: Senate Foreign Relations Committee.
179	3/12	Exchange of notes with Canada on Seaway tolls.
180	3/13	Department statement on anti-U.S. demonstrations in Bolivia.
*181	3/13	Itinerary of President of Ireland.
†182	3/13	Discussions on European coal situation.
*183	3/13	Cultural exchange (U.S.S.R.).
184	3/13	GATT Chairman discusses economic matters.
185	3/13	U.S.-Canada air transport talks.
187	3/14	Prime Minister of Cameroun visits Washington.
*188	3/14	Steeves designated consul general, Hong Kong and Macao (biographic details).
*189	3/14	Cottrell designated political adviser, CINCPAC (biographic details).

*Not printed.

†Held for a later issue of the BULLETIN.

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1949-1959

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